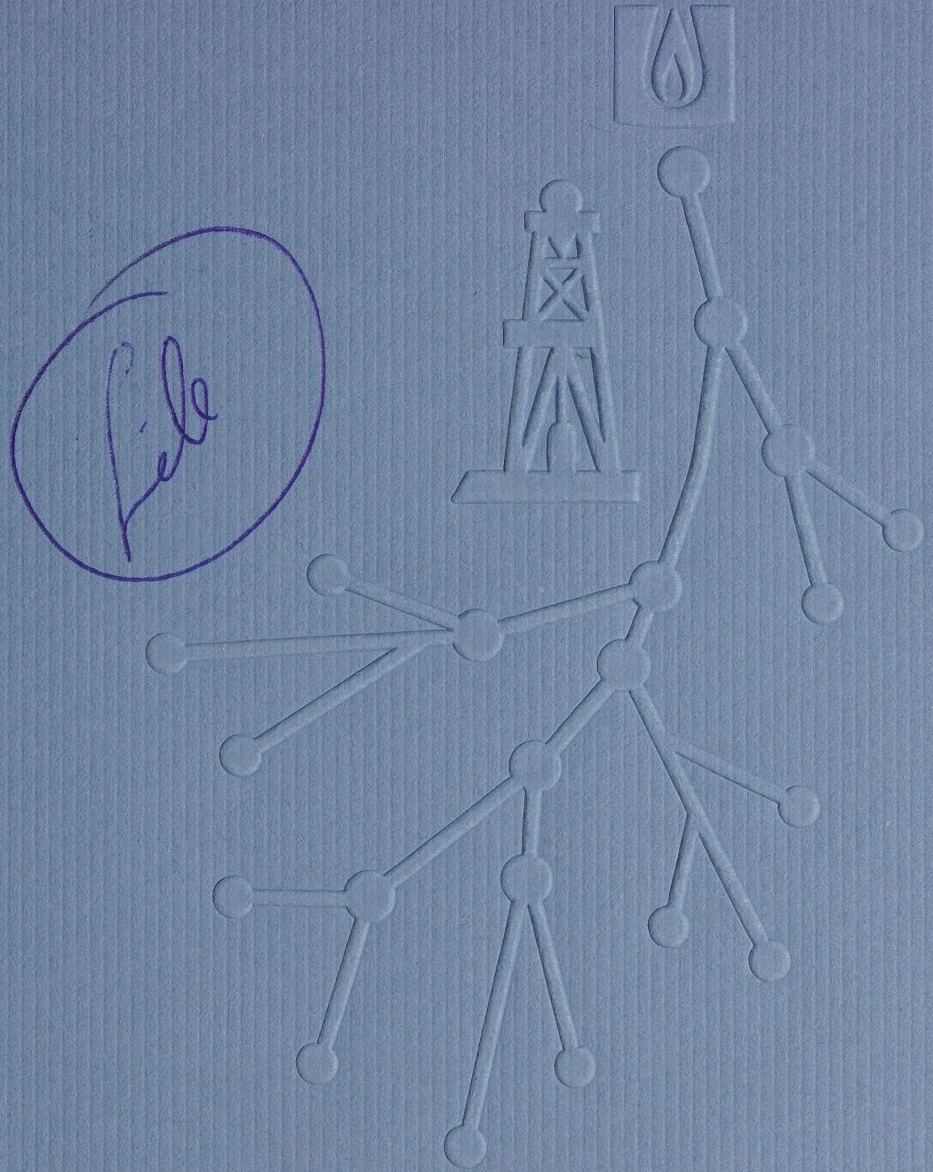
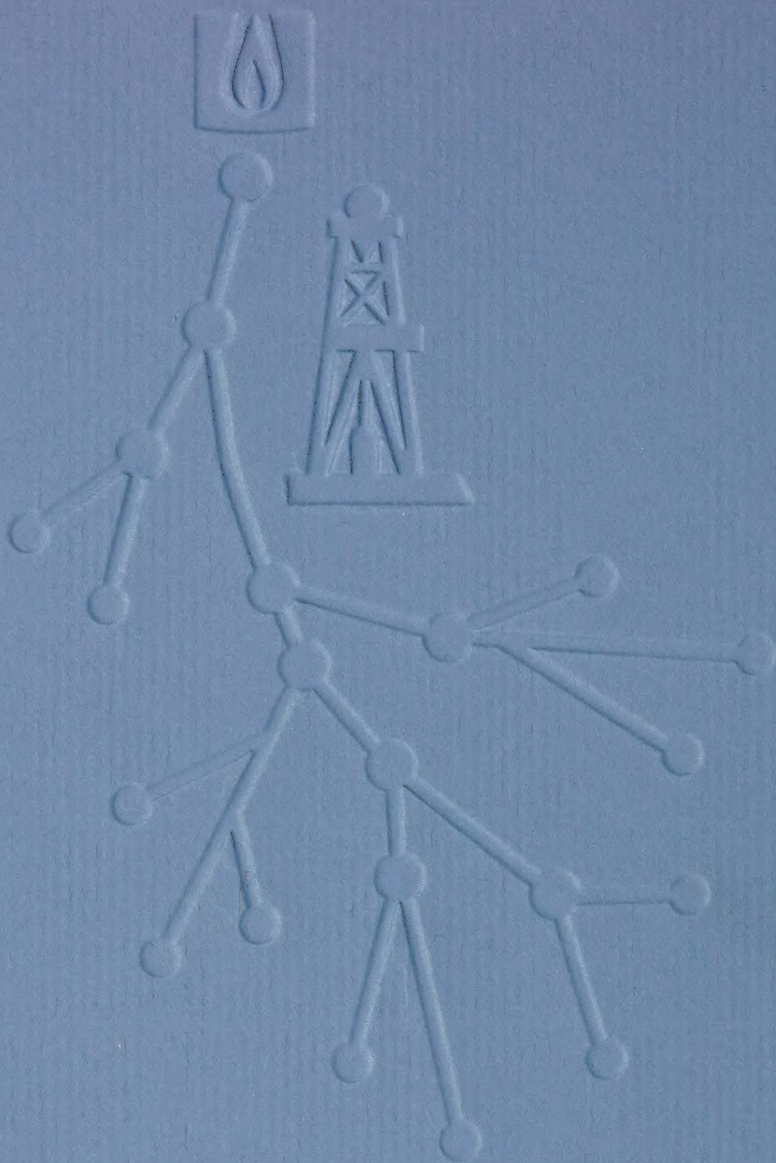






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#### Metric Conversion

Beginning with the 1978 Annual Report, Union has been providing certain operating statistics in both the traditional units of measure and SI. This is continued in this Report. Pending full conversion and adoption of SI measurement, operating results in the text of this Report are stated in traditional units. To assist readers the following conversion table is provided:

| <i>Traditional unit</i>      | <i>SI equivalent</i> |
|------------------------------|----------------------|
| 1 cubic foot (natural gas)   | 0.028 cubic metres   |
| 1 barrel (petroleum liquids) | 0.159 cubic metres   |
| 1 long ton (coal)            | 1.016 tonnes         |
| 1 British Thermal Unit       | 1055.1 joules        |
| 1 inch                       | 25.400 millimetres   |
| 1 foot                       | 0.305 metres         |
| 1 mile                       | 1.6093 kilometres    |
| 1 acre                       | 0.405 hectares       |

#### Annual Meeting

The Annual Meeting of Shareholders will be held at the Head Office of the Company, 50 Keil Drive North, Chatham, Ontario, on Thursday, June 18, 1981 at 11 o'clock a.m. (Eastern Daylight Time). While shareholders are encouraged to attend the meeting, it is important that those who are unable to attend sign and return the proxies which have been mailed with this report.

# Union Gas Limited

## Comparative Highlights

Year ended March 31

|                                        | 1981      | 1980      |
|----------------------------------------|-----------|-----------|
| <b>Operations (\$000's)</b>            |           |           |
| Operating revenues                     | \$824,545 | \$692,611 |
| Funds provided from operations         | 73,495    | 62,836    |
| Income from:                           |           |           |
| Utility and Western Canada resources   | 30,605    | 24,299    |
| Major Holdings                         | (1,212)   | (588)     |
| Total income before extraordinary item | \$ 29,393 | \$ 23,711 |

### Common Share Statistics

|                                                      |            |            |
|------------------------------------------------------|------------|------------|
| Weighted average number of common shares outstanding | 19,849,443 | 18,273,882 |
| Per share data:                                      |            |            |
| Funds provided from operations                       | \$3.70     | \$3.44     |
| Earnings from                                        |            |            |
| Utility and Western Canada resources                 | 1.22       | 1.05       |
| Major Holdings                                       | (.12)      | (.08)      |
| Basic earnings (before extraordinary item)           | 1.10       | .97        |
| Fully diluted earnings (before extraordinary item)   | 1.07       | .96        |
| Dividends declared (indicated annual rate)           | .80        | .74        |

### Marketing

|                             |         |         |
|-----------------------------|---------|---------|
| Total customers at year end | 463,702 | 453,195 |
| Natural gas sales:          |         |         |
| Million cubic metres        | 6 957   | 7 039   |
| Billion cubic feet          | 246.9   | 249.7   |

### Western Canada Resource Operations

|                                           |           |           |
|-------------------------------------------|-----------|-----------|
| Reserves (at December 31, 1980 and 1979): |           |           |
| Oil (Barrels)                             | 5,100,000 | 2,800,000 |
| Gas (Billion cubic feet)                  | 206.5     | 202.0     |
| Production (fiscal 1981 and 1980):        |           |           |
| Oil (Barrels)                             | 128,600   | 83,800    |
| Gas (Million cubic feet)                  | 336       | 272       |

### Capital Expenditures (\$000's)

|                                                           |                  |                  |
|-----------------------------------------------------------|------------------|------------------|
| Utility properties                                        | 55,830           | 57,274           |
| Western Canada resource exploration and development costs | 27,858           | 22,422           |
| <b>Total Assets (\$000's)</b>                             | <b>\$995,817</b> | <b>\$855,785</b> |



Since its incorporation in 1911, Union Gas has been distributing natural gas in Southwestern Ontario. With assets close to \$1 billion, Union is one of Canada's largest natural gas utilities, serving some 464,000 customers. As well, Union owns and operates storage and transmission facilities which not only serve its own markets, but provide an important source of revenue through service provided to other utilities and pipeline companies.

Union's underground gas storage facilities are the most extensive in Canada, and its transmission network is an integral part of the delivery system for gas from Western Canada.

Western Canada resource operations began several years ago and have accelerated in recent years. All of Union's Western Canadian resource properties are managed under agreement by Calgary-based Precambrian Shield Resources Limited. Union is also involved in coal exploration and experimental development in the Lethbridge area of Southern Alberta. In 1980 Union expanded and strengthened its program by acquiring a 13.7% equity interest in Numac Oil & Gas Ltd. of Edmonton.

Through a subsidiary, Major Holdings & Developments Limited, the Company's activities include land development and realty operations in Southwestern Ontario.

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Union Gas began exporting synthetic natural gas (SNG) to the United States, to Transcontinental Gas Pipe Line Corporation (Transco), late in 1980. A ceremony marking commencement of SNG deliveries was held January 5, 1981 at a valve site near the Detroit River in south Windsor. Officiating were James E. Coventon, Transco's Vice-President, Gas Supply; Kenneth M. Curtis, at that time US Ambassador to Canada; and Union's President W. Darcy McKeough.





The fiscal year reviewed in this Annual Report was an eventful one for Union Gas. In the Canadian energy field generally it was a year in which fundamental changes were introduced or proposed in many aspects of policy and operations.

Earnings applicable to common shares of Union Gas increased from \$17.7 million to \$21.5, or 21.2%. Even with this improvement, they remained below those achieved in fiscal 1977 and 1979. With a larger number of shares outstanding in fiscal 1981, earnings were \$1.10 per common share before deduction of an extraordinary item, compared with earnings of \$.97 per share in the previous year. Costs associated with the discontinuation of the Company's retail appliance sales operations resulted in an extraordinary reduction of \$.02 per common share in 1981.

Cash flow per common share rose from \$3.44 to \$3.70.

Performance of the Company's basic utility business showed significant improvement with earnings rising by 16.2% from \$1.05 in fiscal 1980 to \$1.22 in fiscal 1981. Much of this improvement, however, was offset by a loss on the operations of the Company's land development subsidiary, Major Holdings & Developments Limited, which reduced Union's earnings by 12¢ per share in fiscal 1981, compared with a reduction of 8¢ per share in fiscal 1980. This loss reflects the overall decline in the construction industry in Ontario and the persistent high interest rates on funds borrowed to finance Major's property inventory.

A management reorganization, substantial reduction of staff and efforts to reduce Major's land inventory have been undertaken with the objective of improving that company's operations and financial position.

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The most important oil discovery in which Union has been involved took place in the winter of 1980-81 at Rat Creek in the West Pembina area of Alberta, 150 kilometres west of Edmonton. Follow-up drilling was undertaken this Spring and it is anticipated that Union's 29% share of Rat Creek production will make a significant contribution to the Company's future cash flow.

Among the key events or developments of the year were the following:

- ▶ Union concluded arrangements for the export sale of synthetic natural gas which the Company purchases from Petrosar Limited of Sarnia. Uncertainties about the ultimate disposal of this gas had created serious concern for the Company in recent years. However, with the commencement of deliveries and other developments there are indications that the problem may be substantially resolved.
- ▶ The Company ended the year with a stronger balance sheet and a substantially expanded capital base, having raised \$160 million in new permanent capital since March 1, 1980. A further \$20 million in common equity was added through the conversion of previously issued securities.
- ▶ Sales volume declined, reflecting continued conservation and reduced economic activity in our service area. Nevertheless, at 246.9 BCF, volume was off only 1.2% from last year's record level.
- ▶ On January 7, 1981, Union filed an application for a rate hearing based on estimated costs of a future test year rather than on results of an historic test year. The hearing of this application began on April 21, 1981. It is anticipated that there will be closer integration of the Phase I and Phase II elements of this hearing than in other recent applications.
- ▶ A new three-year agreement with the Energy and Chemical Workers Union was concluded in September of 1980. This was achieved some four months ahead of the expiry of the old contract to the satisfaction of all involved — management, the employees and the union representatives.
- ▶ The corporate group, as a group distinct from the management of the utility, was developed and enlarged during the year.

Key responsibilities of the corporate group include:

- Finance and Treasury
- Management and development of existing non-utility operations
- Pursuit of diversification

▶ The Federal Government introduced its National Energy Program in October 1980 with the stated objectives of:

- Developing national self-sufficiency in oil
- Increasing Canadian ownership in energy resource industries
- Increasing federal government revenues

Union endorses all three objectives. However, the Program places so much emphasis on the second and third objectives that the attainment of the most desirable and urgent objective, self-sufficiency, appears to have been placed in jeopardy. There is concern also that the Government will interpret public support for increased Canadian ownership as endorsement of increased Government ownership in the petroleum industry.

The Program's aims also include encouragement of conversions from oil to natural gas and other forms of energy at the consumer level; extension of natural gas service to areas not now served; and improvement in the existing pricing advantage of natural gas over oil. Union is aggressively pursuing these increased marketing opportunities.

▶ Union entered into a management agreement with Precambrian Shield Resources Limited in April, 1980, in order to provide broadly-based, aggressive administration of the Company's resource investments. The task of assembling a comparable level and depth of expertise would have been lengthy and difficult.

Elsewhere in this report details of a study of Union's Western Canadian oil and gas reserves are provided. The study by independent consultants confirms that at

December 31, 1980, proven and probable reserves amounted to 5.1 million Barrels of oil and natural gas liquids and 206.5 BCF of natural gas. These assets, together with the coal reserves and the Company's extensive land holdings, now represent a significant factor in Union's per share valuation.

As reported in last year's Annual Report and as part of the Company's resource development strategy, Union, in June 1980, acquired a 10.7% interest in Numac Oil & Gas Ltd. of Edmonton, a successful Canadian independent oil and gas producer. This holding was subsequently expanded. At the end of the fiscal year, Union's holdings in Numac amounted to 13.7%

During the course of the year management has set out three corporate goals, as follows:

To serve our customers in a safe, reliable and efficient manner at the lowest practicable cost.

To provide a fair and growing return for our shareholders at a level which will attract, at a reasonable cost, the capital needed to optimize our utility potential and allow for diversification in non-regulated investments with a higher return.

To provide challenging and rewarding job opportunities for our employees at equitable remuneration.

The establishment of specific financial objectives for the Company is an important priority for management. Much attention has been given to this matter in the past year though considerable refinement is required. The section on page 8 reviews the situation in some detail.

Union Gas is a company in the process of change. Diversification is being actively pursued. The natural gas distribution business will remain a fundamental source of strength and is regarded by management as "our business". Yet, opportunities in other aspects of the energy industry, and possibly in other fields, must and will

be aggressively explored. The Company is no longer simply a utility; in recent advertising it has described itself as a "utility plus".

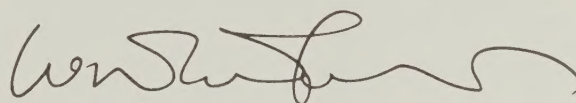
The challenges and uncertainties of the recent past have created burdens and responsibilities in which the employees of the Company have shared fully and to which they have responded with enthusiasm and dedication. On behalf of the shareholders, the directors express deep appreciation.

Three former directors and great friends of the Company passed away during the year; Sidney M. Blair, who served as a director from 1965 to 1971, Rhys M. Sale, a member of the Board from 1953 until retirement in 1972 and Colonel T. Weir, a former Vice-President and General Manager and a director from 1943 to 1970.

Two long-serving directors of Union Gas will retire from the Board at the time of the 1981 Annual Meeting, having reached the mandatory retirement age. They are Chairman of the Board C. Malim Harding, and F. W. P. Jones. Each has made an outstanding contribution to the Company.

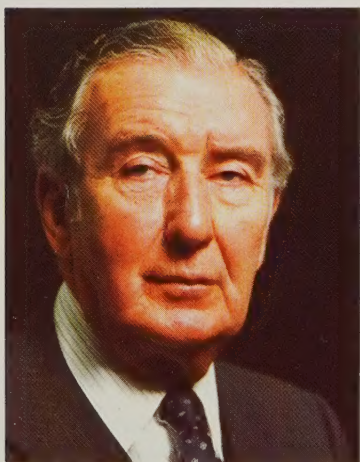
Mr. Harding joined the Board in 1962 and was elected Chairman in 1976. Mr. Jones has served as a director since 1967. Their wise counsel and active participation in Board affairs will be greatly missed.

On behalf of the Board of Directors.



President and Chief Executive Officer

Chatham, Ontario, Canada, May 7, 1981.



C. Malim Harding, Chairman

W. Darcy McKeough,  
President and Chief Executive  
Officer

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### Financial Goals

To increase substantially the level of earnings, earnings growth and asset value growth:

- ▶ Achieve an inflation-adjusted real return on average common equity of at least 5% by the end of fiscal 1983 and a somewhat higher return with the inclusion of Western Canada resource interests at appraised value.
- ▶ Achieve a combined earnings and appraisal growth of 5% per year in real terms from the beginning of fiscal 1982.
- ▶ Achieve the following contributions to corporate earnings after tax:

|         | Utility | Non-Utility |
|---------|---------|-------------|
| by 1985 | 75%     | 25%         |
| by 1990 | 50%     | 50%         |

- ▶ Make non-utility operations self-financeable by 1985.
  - ▶ Improve financial capacity by significantly reducing short-term debt and increasing common equity component.
- 

### Strategy

Considerations for reaching the above targets:

- ▶ The first priority will continue to be to improve the effectiveness of the utility operation. Union is in the utility business to stay. The utility will not be expected to subsidize non-utility ventures. Rather, it is imperative that any non-utility diversification should enable the Company to attract more risk capital, in the form of common equity financing, at a higher multiple of earnings than a utility operation could attract on its own.
- ▶ Aggressive expansion of Western Canada energy interests with emphasis on production and cash flow in the intermediate term. Management will be of an active nature as opposed to that of a passive venture investor. Advantage should be taken of temporary down-turns in the resource economy to increase the asset base.
- ▶ Diversification into other unregulated fields may be of two types. First, non-Canadian energy investment opportunities with established Canadian partners or associates. Second, business operations where the Company is not represented but where certain synergies or knowledge from two existing fields of business may be capitalized upon. Such investments must not have an unduly negative effect on the Company's near-term earnings.

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Strathearn Service Centre at Hamilton — operating headquarters for the Eastern Region of the Union Gas system — was enlarged and renovated during fiscal 1981 to enable the Company to better meet the needs of its customers in such centres as Burlington, Oakville, Georgetown, Milton, Acton, Dundas and Stoney Creek, as well as Hamilton.

## Earnings and Dividends

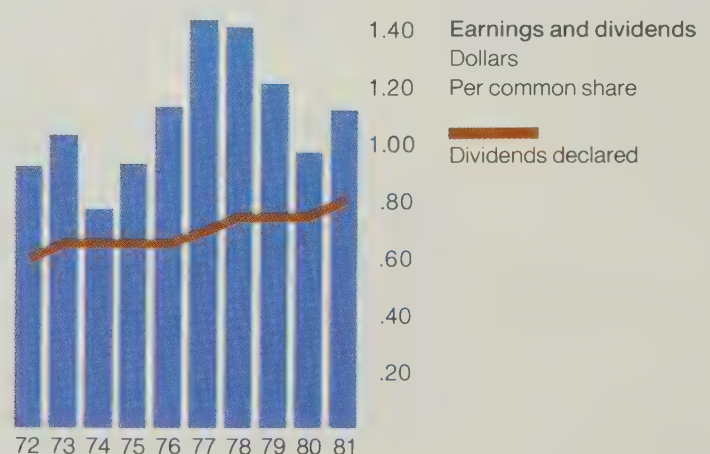
Fiscal 1981 earnings per share of \$1.10 before an extraordinary item were above forecasts made early in the year, following the Numac investment and the reorganization of Western Canada resource operations. The Company did not anticipate significant rate relief in the 1981 year, but rather concentrated on moving to a projected test year basis for fiscal 1982.

Despite colder than normal weather sales volumes declined marginally. The cost of gas sold increased by \$104.9 million, due mainly to wholesale price increases and the 30¢ per Thousand cubic feet (MCF) excise tax introduced in the federal budget of October 28, 1980. Increases in other operating and maintenance expenses were \$7.2 million, or 9.8%.

The loss attributable to Major Holdings was substantially greater than anticipated, decreasing the Company's earnings per share by 12¢ after deducting interest costs on debt owing by Major to Union.

Interest costs have continued to rise as higher rates have significantly increased the cost of financing inventories and accounts receivable. The amount of interest being deferred increased as the Company's involvement in the oil and gas exploration and development program continued and expanded. In October, 1980 the Company ceased deferring interest on the portion of synthetic natural gas supply that was replacing regular supplies for accounting purposes.

Cash flow from Western Canada operations increased significantly, although from a very small base, to \$1.3 million in fiscal 1981 compared with \$260,000 in the previous year. The Company does not expect its Western Canada



operations to make a contribution to earnings for at least two or three years, although growth in cash flow will become evident.

In January 1981, the Directors declared a quarterly dividend of 20¢ per share on the Class A and Class B Common Shares, payable May 1, 1981. This was an increase over the previous quarterly level of 18.5¢ which had been in effect for more than three years.

Financial Position

At fiscal year-end the Consolidated Balance Sheet had been significantly strengthened as a result of new financing activity and a capital restructuring program carried out during the year. A debenture issue of \$60 million in March 1980 was followed by the private placement of \$40 million 9½% Preference Shares in September. On March 31, 1981 the Company successfully sold 4,350,000 additional Common Shares, resulting in net proceeds of some \$48 million. 1,000,000 additional shares were issued in June 1980 as partial consideration for the Numac acquisition. In addition \$20.5 million new common equity resulted from conversion of the Class B, Series 1 Preference Shares. Changes in the components of capital structure are illustrated in the table below.

The positive cash flow effect of the export sale of the Petrosar SNG volumes to Transcontinental Gas Pipe Line Corporation was a significant improvement and had a positive influence on the Company's financing ability, as well as making future financings possible on improved terms. Western Canada resource appraisals also provided a strong positive feature to the year-end financial position and should favourably affect the Company's future ability to attract capital.

Capital budgets in the near term assume a continuing healthy growth in utility rate base and Western Canada resource expenditures. Financing activity cannot be expected to lessen significantly. For fiscal 1982 the utility

capital program of \$85.1 million is the largest ever for the Company.

Further, an important factor is the need to increase the Company's permanent capital base to mitigate the level of short-term debt. With the requirement to finance more costly gas in inventory becoming characteristic of the gas distribution industry these levels are bound to increase. Studies are under way to address this current and future problem.

Return on Investment

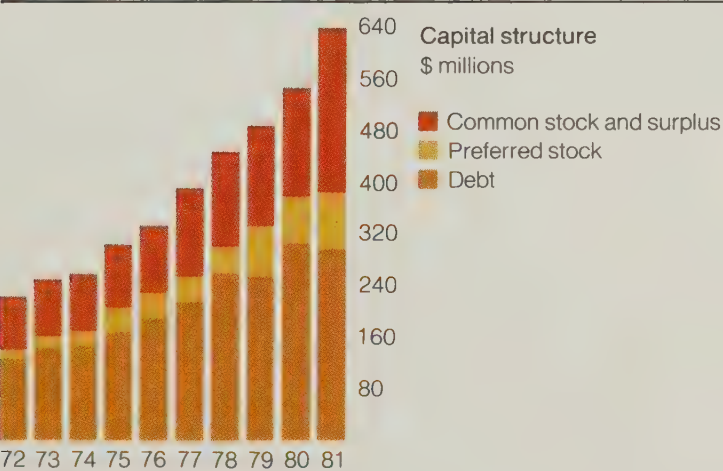
The Company's return on investment of common equity increased in fiscal 1981 to 12.6% from 11.1% in 1980 after declining for a number of years.

This return is based solely on net income (inclusive of Major Holdings losses for fiscal 1980 and 1981) as a function of average shareholders' equity for the year. It does not factor in the increase in asset values in the Western Canada resource operations, which would provide a more realistic basis of evaluating the Company's return. Asset value growth has become a factor in the measurement of Union's progress and will continue to be.

For the utility operation the earnings of the Company are regulated by the Ontario Energy Board on the basis of a rate of return on rate base. Return for this purpose is annual utility operating income less income tax. Rate base is composed of the investment in utility plant less accumulated depreciation, and working capital, a large component of which is gas in inventory.

In determining the rate of return on rate base, the Energy Board applies cost rates to each component of the long-term capital structure; debentures, preference shares and common equity.

The most recent determination of a fair and reasonable rate of return on rate base for the utility was made by the Ontario



| Capital structure (thousands of dollars) |           |            |           |            |
|------------------------------------------|-----------|------------|-----------|------------|
|                                          | 1981      | % of total | 1980      | % of total |
| Long-term                                | \$292,560 | 45.7       | \$305,247 | 55.7       |
| Preference shares                        | 95,671    | 15.0       | 78,308    | 14.3       |
| Common equity                            | 251,263   | 39.3       | 164,366   | 30.0       |
|                                          | \$639,494 | 100.0      | \$547,921 | 100.0      |

Energy Board in a decision dated April 22, 1980. This was found to be 10.79% after tax, (including a return on common equity component of 14.5% after tax) based on the capital structure and related cost components applicable to the test year, which was the 1980 fiscal year. For the 1981 fiscal year the Company calculates the actual return to be 10.7%, compared with 9.7% for fiscal 1980.

Effect of Inflation

There is widespread concern that traditional accounting practices do not adequately reflect current and future replacement costs and that transactions reported in the Consolidated Statement of Income at their historical costs differ significantly from levels based on current values. Presently the accounting profession and the financial community in several countries, including Canada, have the matter under study.

As a regulated utility, the value of the Company's service, return on investment and utility revenue requirements are determined by the Ontario Energy Board by reference to historical cost and not on a basis of current value.

In the past the Company has provided a basis of evaluating the effect of inflation on utility plant and accumulated depreciation, the most significant items in rate base, which is the investment level upon which the utility earnings are regulated. The Company has again made an estimate for these items based on general price-level changes to assist readers in assessing the impact of inflation. It is important to note that this basis reflects only the effect on the Company of the change in the general purchasing power of money and does not purport to represent appraised value, replacement cost or other measure of current value.

The valuation base was arrived at by translating historical costs by reference to changes in the Gross National Expenditure Implicit Price Index from the dates of

acquisition to March 31, 1981. Historical cost amounts compared to constant dollar amounts are as follows:

| (\$000's)                               | 1981             |                 | 1980             |                 |
|-----------------------------------------|------------------|-----------------|------------------|-----------------|
|                                         | Constant dollars | Historical cost | Constant dollars | Historical cost |
| Utility properties, plant and equipment | \$1,499,025      | \$704,796       | \$1,455,973      | \$653,404       |
| Accumulated depreciation                | 337,220          | 133,038         | 311,465          | 118,176         |
| Net book value                          | \$1,161,805      | \$571,758       | \$1,144,508      | \$535,228       |

The application of the historical cost composite depreciation rates to the general price-level values would have resulted in increased depreciation provision for 1981 of approximately \$20.4 million (\$17.1 million in 1980) and a reduction in 1981 net income of \$10.2 million (\$8.6 million in 1980).



In March, 1981 Union Gas issued 4,350,000 new common shares for \$50.6 million. This was the first such issue for Union since 1977. The prospectus drafting group included the Company's Manager, Corporate Finance G. E. Miller, Corporate Secretary Edna Crawford, and representatives of the Company's legal and financial advisors. A portion of the group is shown here.

Union Gas Pipeline System  
serving Southwestern Ontario

### Primary and secondary gas transmission and storage pipelines

Gas storage fields

Portion of transmission facilities of TransCanada PipeLines Limited, The Consumers' Gas Company, Great Lakes Gas Transmission Company Ltd and Panhandle Eastern Pipe Line Company



## Gas Sales

For fiscal 1981 total gas sales were 246.9 BCF, a decrease of 2.9 BCF from the fiscal 1980 volume. The number of customers increased by 10,507 to a total of 463,702. Sales were affected by the continuing conservation efforts of our customers, combined with slowdowns in the automotive and construction supply industries and an oversupply of heavy fuel oil available at distress sale prices. In the large volume commercial and industrial market the addition of 11 new customers partially offset these factors.

While the weather was 1.3% colder than the previous year and 4.4% colder than normal, conservation continued to offset gains in residential sales. Since 1973 — after normalizing for weather conditions — the Company estimates that average use has declined 15%.

The trend to conversion from other fuels increased throughout the past year, with over 6,000 homes in the Company's service area converting to natural gas heating. The Canada Oil Substitution Program, announced October 28, 1980 by the Federal Government as part of its National Energy Program, is expected to affect conversion activity in future years. Two elements of the oil substitution program which will have the most impact are the Customer Assistance Program and the Distribution System Expansion Program. Under the first, oil users will be eligible to receive a taxable grant (maximum \$800) covering one-half of the cost of conversion. In the Company's existing service area almost 100,000 oil heating customers may be expected to take advantage of this program.

The Distribution System Expansion Program is intended to provide gas utilities with grants to subsidize the extension of service to areas previously uneconomical to serve. The Federal and Provincial Governments are still negotiating details of this program. Potential gas service extensions in Union's franchised area could reach as many as 30 communities and 20,000 households.

In the new housing market, natural gas heating continues to achieve an 80% level in single-family homes.

In keeping with its responsibility to encourage the efficient use of natural gas, Union introduced an attic insulation program for its residential customers. Leads generated by promotion material sent to customers are distributed to qualified insulation dealer/installers for follow-up. Homeowners may pay for the insulation over time, on their monthly gas bill.

A careful review of Union's appliance merchandising activities concluded that the loss associated with the sale of gas ranges, dryers and associated appliances was unacceptable. On September 29, 1980, the Company announced that it was discontinuing the sale of such "white goods". This allows sales activities to be concentrated in the space heating and water heating sales and rental markets (both residential and commercial) where the additional gas sales involved are substantial and profitable.

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## System Expansion and Renewal

The fiscal 1981 utility capital expenditure program for expansion and renewal of facilities totalled \$55.8 million. These facilities are used in serving the 463,702 distribution customers, as well as providing storage and transmission service to other utility and pipeline companies.

### *Distribution facilities*

New customers added during the year required a capital investment of \$19.2 million for installation of distribution lines, meters and regulators. The facilities serving existing customers were improved, or replaced where necessary, at a cost of \$12.8 million.

While providing high quality service to the growing number of customers, areas of possible cost reduction are constantly reviewed. One such area where significant cost savings were achieved in the past year was in the collection of customer accounts: reductions were made in the number of office locations and related staff throughout the Company's service area.

### *Transmission and storage facilities*

The facilities owned and operated by Union include 2 884 kilometres of transmission mains and 10 underground gas  
(text continued on page 20)



Left: Among the more significant construction projects completed during fiscal 1981 was the replacement of a 2.6-kilometre section of 16" diameter pipe in one of the main supply lines at Windsor. Cost of this upgrading was \$600,000.

Right: Also completed during the fiscal year was a \$750,000 6" diameter line, extending some 17 kilometres from Seaforth to Hensall, mainly to supply additional gas to the grain dryers at Hensall's elevator complex.





**C**ampbell's, Green Giant, Heinz, Hunt, Libby's, E.D. Smith, York Farms — names like these are familiar to grocery shoppers throughout Canada. They are literally household words. And in Southwestern Ontario, they are special Union Gas words. Along with many other food processing firms the companies behind these names are all customers of Union, consuming more than 4.5 BCF of natural gas a year and representing gross revenues of approximately \$15 million. ■ With our Head Office at Chatham, in the heart of Canada's vegetable garden, we are happy in this report to feature the food processing industry and the role of natural gas in bringing the produce of Southwestern Ontario to the nation's tables.



**F**ood industry statistics reveal that the area served by Union Gas produces 91% of the tomatoes grown in Ontario; 99% of the Brussels sprouts; 72% of the sweet corn and 75% of the green peas. In 1980 the area's processed vegetable crop totalled 642,500 long tons and included over 398,000 tons of tomatoes and 132,000 tons of sweet corn. The contribution to the provincial economy from Southwestern Ontario's food and agricultural products is estimated by the Provincial Department of Agriculture to be some \$1.5 billion.

Left: At Leamington, a portion of Western Ontario's 400,000-ton 1980 tomato crop is washed to remove field soil. Conveyors (background) carry the tomatoes into the factory where they are processed with steam produced by natural gas-fired boilers.

Right: Resembling a rocket ship about to be launched, this evaporator unit actually leads a much less dramatic existence, using steam heat to remove moisture from tomato juice at Ruthven.



**In addition to its vegetable processing customers, Union supplies a large number of other food processors, including the dairy industry. In the area between Waterloo and Owen Sound these industries account for gas volumes of almost 1 BCF a year and gross revenues of more than \$3 million.**

Upper Left: Corn is closely inspected as it travels by conveyor through Wallaceburg canning plant. Corn is then fed into a corn cutter which removes kernels from cobs.

Lower Left: Automatic filling machine fills and seals cans, after which corn is cooked with steam produced by gas.

Right: Steam-blanching green beans at Brantford are packaged in cardboard containers, in preparation for freezing.



**A** newcomer to the list of food processing customers is Picard Peanuts of Wyndham Centre near Simcoe. Peanuts have been introduced to the Simcoe-Delhi area as an alternative crop to tobacco. Agriculture officials are viewing this operation favourably in light of the fact that Canada annually imports some \$50 million worth of peanuts and peanut butter.

Upper Left: Curd, principal ingredient in cheese, is dried at Harriston dairy products plant. Curd is supplied to cheese-maker for final processing.

Lower Left: At Brantford, cauliflower is cut into small chunks prior to blanching, packaging and freezing. Steam-heated blancher can be seen in background.

Right: Wyndham Centre firm employs gas-fired dryers and roasters to process this area's newest crop — peanuts. Some are packaged for retail sale; others are destined to become peanut butter.



On these pages we have followed South-western Ontario produce through various stages, from field crop to processing with natural gas and, finally, to the packages in which they are probably most familiar to shoppers. Our story does not end there — many of these products will be further “processed” by homemakers, again with natural gas, before finally reaching the nation’s tables.

storage pools. The storage pools have a working capacity of 96 BCF and are the largest in Canada.

Capital expenditures in fiscal 1981 for transmission and storage projects totalled \$9.1 million. The largest single transmission project was the installation of 17 kilometres of 6" main between Hensall and Seaforth. Other projects included a continuation of system upgrading programs and specifically, improvements to gate station facilities at several locations.

As well as providing peak winter service to Union's customers at minimum cost, the storage and transmission facilities are an increasingly important source of revenue for the Company. During the 1981 fiscal year increases were recorded in transportation and storage service provided under existing contracts. Revenue from storage and transportation service increased by \$1.5 million over that for fiscal 1980. Further significant increases are becoming apparent from enquiries already received from existing customers, and future increases in this type of service are forecast as a result of the planned expansion into Quebec and the Maritime provinces of the Trans-Quebec and Maritimes (T Q & M) pipeline project.

#### Future expansion

In January 1981 Union Gas signed a letter of intent with TransCanada PipeLines Limited, Transcontinental Gas Pipe Line Corporation of Houston (Transco), American Natural Resources Storage Company and Great Lakes Gas Transmission Company, both of Detroit, covering agreement for the sale and purchase by TransCanada and Transco respectively of up to 110 BCF of gas per year during a 10-year period. Deliveries under that agreement are anticipated to commence during November 1983. Storage requirements will be supplied to Transco over a 20-year period and total 40 BCF per year, with Union to provide up to 20 BCF. As well, Union will utilize portions of its transmission system for delivery of gas to and from storage and inter-connecting points.

A contract with Transco is currently being drawn up, the terms of which contemplate the first injection into Union's

storage in April 1984. To meet the requirements of the Transco project, Union will be required to add compression capability at its Dawn Station to develop greater use of existing storage capacity. Also needed will be modification of the compressor stations at Bright (near Woodstock) and Lobo (near London). In connection with the transportation service, scheduled looping of Union's main 42" Dawn-Trafalgar line will be advanced.

The TransCanada-Transco project will require regulatory approvals in Canada and the United States.

#### Gas Supply

Union foresees no problem in meeting the demands of customers, both existing and potential, well into the future.

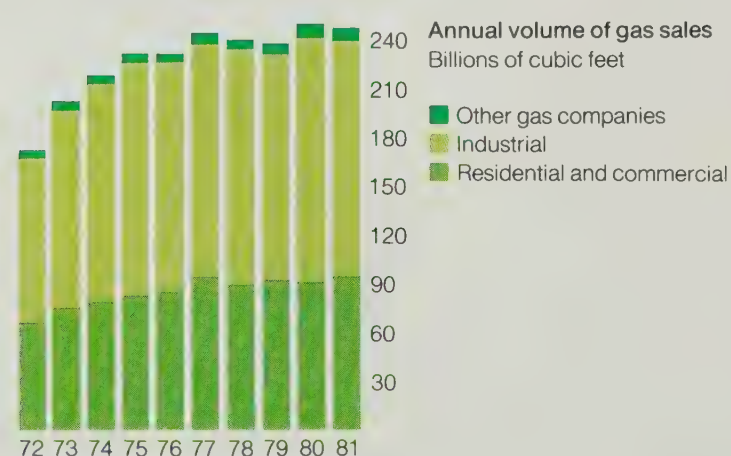
Throughout fiscal 1981, TransCanada continued to be the Company's major supplier, providing 95% of the total volume of 247.7 BCF. Ontario production provided some 4.9 BCF, or 2%, and Petrosar volumes of 7.7 BCF equivalent were 3% of total gas supplied.

On March 6, 1981, a new purchase contract was signed with TransCanada for annual volumes of approximately 10 BCF. Deliveries under this contract are expected to commence November 1, 1981, dependent upon completion by TransCanada of the necessary facilities.

#### Regulation

In the most recently completed main rate hearing, the Ontario Energy Board found that the Company was entitled to earn a rate of return on rate base of 10.79%. An order approving final rates as a result of that hearing was received on March 16, 1981, effective April 1, 1981. Preliminary rates had been in effect since January 1980.

During the 1981 fiscal year the Energy Board authorized two interim rate adjustments to allow the Company to pass on higher gas costs. One such adjustment results from an increase in the wholesale cost of gas effective September 1, 1980 and the other was due to the new federal excise tax on natural gas introduced in the federal budget on October 28, 1980 and effective November 1, 1980.



| Gas sales volume (billions of cubic feet) |                        |              |                    |
|-------------------------------------------|------------------------|--------------|--------------------|
| Class of customer                         | Year to March 31, 1981 | % of total   | % change from 1980 |
| Residential                               | 50.5                   | 20.5         | +0.9               |
| Regular rate — Commercial & Industrial    | 63.5                   | 25.7         | +2.7               |
| Contract — Commercial & Industrial        | 125.9                  | 51.0         | -4.2               |
| Other gas distributors for re-sale        | 7.0                    | 2.8          | +8.6               |
| <b>Total</b>                              | <b>246.9</b>           | <b>100.0</b> | <b>-1.2</b>        |

| Gas sales revenue (\$millions)         |                        |              |                    |
|----------------------------------------|------------------------|--------------|--------------------|
| Class of customer                      | Year to March 31, 1981 | % of total   | % change from 1980 |
| Residential                            | 212.6                  | 27.2         | +20.4              |
| Regular rate — Commercial & Industrial | 211.0                  | 26.9         | +23.4              |
| Contract — Commercial & Industrial     | 339.0                  | 43.3         | +16.0              |
| Other gas distributors for re-sale     | 20.1                   | 2.6          | +31.1              |
| <b>Total</b>                           | <b>782.7</b>           | <b>100.0</b> | <b>+19.5</b>       |

On January 7, 1981 an application was filed for a new main rate hearing. In this application the Company has taken two steps directed to reducing the time lag between the experience of revenue deficiencies and implementation of authorized rate increases. First, the application has been filed on the basis of a projected test year, i.e. the Company's fiscal year beginning April 1, 1981. This is a departure from the previous use of an historical or current test year. Secondly, Union has requested the Energy Board to conduct this rate hearing without separating it into two phases as has been the Board's practice.

In the January 7 filing the Company requested approval of increases which would produce a rate of return of 11.98% on an average rate base of \$759.7 million for the 1982 test year. The requested return on common equity is 15.75%. Hearing of this application commenced April 21, 1981 and it is expected that appropriate rate adjustments will be implemented prior to the 1981-82 heating season.

SNG Purchases and Sales

During fiscal 1981 Union's financial exposure relative to SNG, although not eliminated, was substantially reduced.

On April 16, 1980 Union concluded an agreement with Transco of Houston, Texas, providing for the sale by Union to Transco of the energy equivalent of all SNG which Union had purchased to date and was obligated to purchase in the future under the 1974 supply contract with Petrosar Limited.

Initial Canadian and U.S. regulatory approvals for the five year period ending October 31, 1985 were received in December, 1980 and export deliveries commenced on December 24, 1980. To March 31, 1981, 2.95 BCF had been sold to Transco and exports are continuing at the rate of approximately 30,000 MCF per day.

Union has entered into several energy exchange agreements with Petrosar which, in addition to the export sale, are reducing the premiums paid for SNG. To March 31, 1981 the benefit from these exchange agreements amounted to \$12.6 million. By agreement dated April 8, 1981 Union and Petrosar have agreed to further these

energy exchange arrangements to March 31, 1982 and it is estimated that such agreement will reduce the SNG premium by a further \$13.8 million during fiscal 1982.

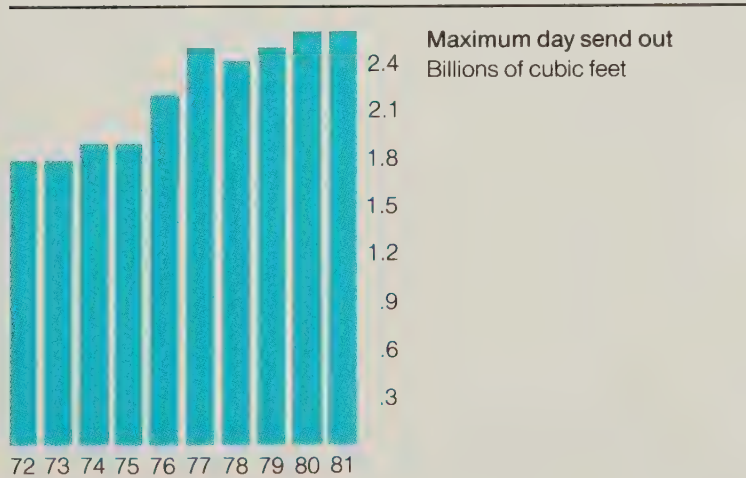
The following table illustrates the changes in the SNG premium under Deferred Charges on the accompanying Consolidated Balance Sheet:

| (\$000's)                                                | Period from commencement of Petrosar contract to December 31,1980 | 3 month period ending March 31,1981 | 12 month period ending March 31,1982 (estimated) |
|----------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------|--------------------------------------------------|
| Opening Balance                                          | —                                                                 | 31,259                              | 29,976                                           |
| Premium on SNG purchases                                 | 25,352                                                            | 7,748                               | 35,100                                           |
| Margin on Transco sale                                   | (666)                                                             | (6,747)                             | (32,770)                                         |
| Margin on energy exchange agreements                     | (4,980)                                                           | (3,078)                             | (13,790)                                         |
| Interest deferred (from October 1, 1980 on premium only) | 11,553                                                            | 794                                 | 1,670                                            |
| Net change during period                                 | 31,259                                                            | (1,283)                             | (9,790)                                          |
| Closing Balance                                          | 31,259                                                            | 29,976                              | 20,186                                           |

The SNG Premium is being excluded from Union's cost of service until a decision has been reached by the Ontario Energy Board. A hearing into Union's application of June 1980 in this regard commenced before the Energy Board on November 18, 1980. However, this hearing was adjourned on January 19, 1981 pending resolution of an application to the Divisional Court, by the Industrial Gas Users Association, disputing the jurisdiction of the OEB to consider the application. On April 1, 1981, the Divisional Court concluded the hearing on this matter with a unanimous ruling against the Industrial Gas Users Association. As yet, no date has been set for resumption of the hearing before the Energy Board.

Employees

At March 31, 1981 Union Gas employed 2,409 people, versus 2,407 on the same date in 1980. Management, supervisory and professional personnel numbered 502; clerical staff 717; technical specialists 258 and hourly-paid employees 932.



| Gas supply volume (billions of cubic feet) |                       |            |                       |            |
|--------------------------------------------|-----------------------|------------|-----------------------|------------|
| Source:                                    | Year to March 31,1981 | % of total | Year to March 31,1980 | % of total |
| TransCanada                                | 235.1                 | 94.9       | 236.4                 | 95.0       |
| Ontario producers                          | 4.0                   | 1.6        | 4.2                   | 1.7        |
| Petrosar                                   | 7.7                   | 3.1        | 7.6                   | 3.1        |
| Total                                      | 246.8                 | 99.6       | 248.2                 | 99.8       |
| Produced from company wells                | 0.9                   | 0.4        | 0.6                   | 0.2        |
| Total gas supply*                          | 247.7                 | 100.0      | 248.8                 | 100.0      |

\*Excluding gas transmitted and stored for other companies.

Our recruitment programs are designed to attract the most capable graduates of high schools, colleges and universities. For all categories of employees, training and development programs continue to play an important role. During fiscal 1981 specialized training was provided for some 1,500 employees and the Company's Educational Aid Program was used by 130 employees. Training covered a variety of technical, supervisory and management skills and included in-house as well as external programs.

In 1980 job evaluation systems were implemented, covering 760 management, supervisory and technical personnel and 725 clerical positions. These were major projects, designed to update internal job relationships and equitable rates of pay.

The Company's 1,114 unionized employees are now represented by one labour union, the Energy and Chemical Workers Union, which resulted from amalgamation of the former Oil, Chemical and Atomic Workers and the Canadian Chemical Workers. In September of 1980, four months prior to expiration of the then existing 2-year contract, agreement was reached on a new 3-year contract, extending to December 31, 1983. The settlement was the earliest in the Company's labour relations history and was achieved without recourse to conciliation or mediation.

Union Gas employees enjoy the full range of benefits coverages available in business and industry, including life insurance, medical and dental coverage, pension and disability plans. Management continually analyzes benefit trends and the effectiveness of the Company's programs to maintain good coverage levels and minimize premium and cost increases.

In the many municipalities served, employees are involved in all aspects of community affairs. Company personnel give freely of their time to local organizations, including the United Way, Junior Achievement, health and welfare organizations and various service clubs. Employees are encouraged to become active in all levels of government and the Company has adopted a policy which permits leave of absence for election campaigns and for government service if elected.

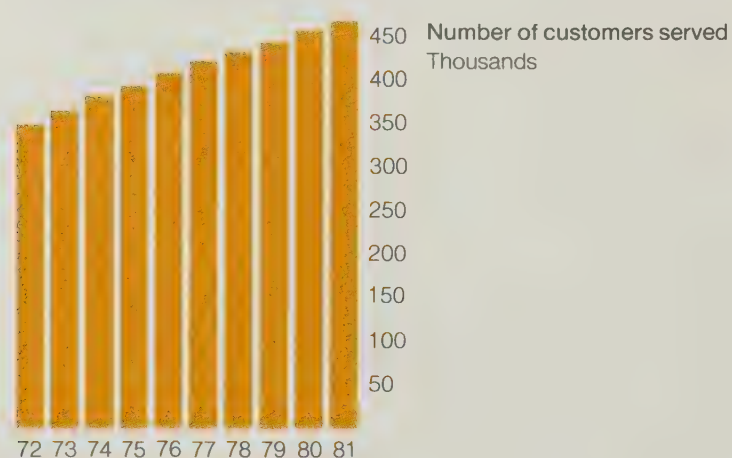
## Major Holdings & Developments Limited

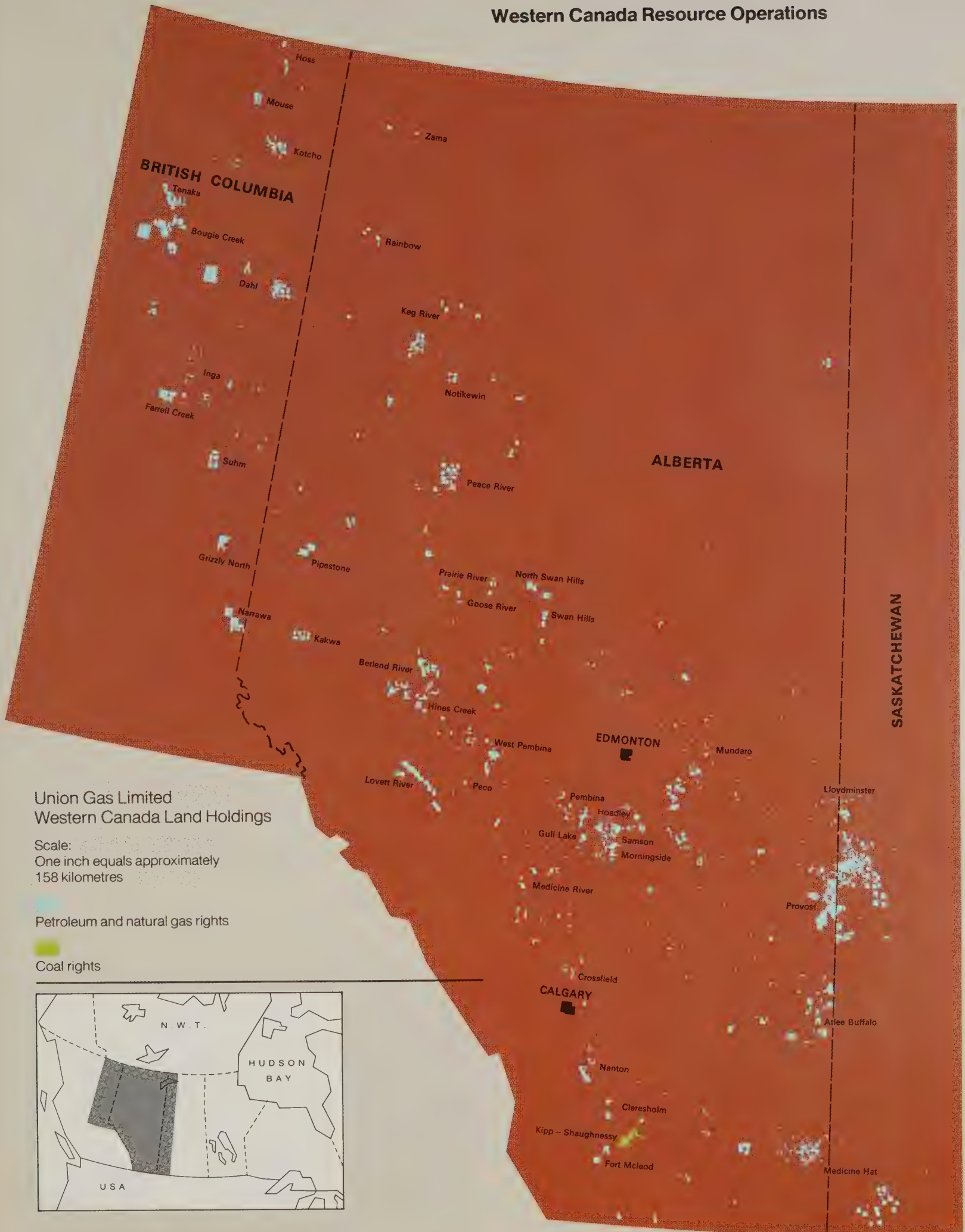
Major is a 99.7% owned subsidiary, engaged in real estate development in Southwestern Ontario. For the year ended March 31, 1981, Major incurred an operating loss of \$2,359,000, which reduced the earnings of Union by 12¢ per share.

The share of Major's loss shown as \$1,212,000 on the accompanying Consolidated Statement of Income is after deducting interest income of \$1,147,000 on advances by Union to Major. In addition, it should be noted that commencing April 1, 1980 Major changed its method of capitalizing interest on its accumulated costs of properties held for development and sale, which had the effect of decreasing Major's loss and increasing the Company's earnings by \$956,000 or 5¢ per share. This change, which was not retroactively applied, is more fully described in Note 2 to the Consolidated Financial Statements.

In general, the real estate industry is in a slump and the overall decrease in activity has resulted in this loss. Of particular impact have been the high interest costs in effect throughout the year. Since there appears to be no immediate prospect of a revival of construction or of significantly lower interest rates, steps have been taken to reduce controllable costs and to reduce the company's large landholdings. Major's outlook for fiscal 1982 is substantially better, with a forecast of at least a breakeven position.

In April 1981, Abram Wiebe resigned as President and Chief Executive Officer and a director of Major Holdings. He has been succeeded as President of Major by Ian A. Milroy, formerly Executive Vice-President.





## Resource Position

The Company's resource expenditures in Western Canada totalled \$27.8 million for the fiscal year ended March 31, 1981, compared with \$22.4 million for the prior year. During fiscal 1982, Union expects to maintain an active program through the commitment of \$25 million of capital to Western Canada resource development.

Union's interests in petroleum and natural gas land rights in Western Canada at December 31, 1980 are summarized below.

|             | Alberta   | British Columbia | Saskatchewan | Manitoba | Total     |
|-------------|-----------|------------------|--------------|----------|-----------|
| Gross acres | 1,400,900 | 415,200          | 519,400      | 5,500    | 2,341,000 |
| Net acres   | 170,300   | 35,000           | 115,800      | 800      | 321,900   |

The net acres shown are working interest acres net to Union before provision for crown royalties and a 10% net profits interest assigned to Precambrian Shield Resources Limited. The acreage position maintained by the Company is extensive and will allow Union to be represented in most of the more significant exploration plays in Western Canada.

During the year the Company entered into a management agreement with Precambrian which allows that company to recover its management costs together with the 10% net profits interest in Union's Western Canadian resource properties. This agreement is structured to provide an incentive to Precambrian for the development of cash flow from these properties.

In previous years Union's reserves position has been based on internal estimates. The reserves as at December 31, 1980 (shown below) were based on estimates made by Sproule and Associates, a large independent petroleum engineering firm. Since the date of that report, further significant exploration additions have been achieved, particularly in reserves of proven and probable oil.

The following definitions form the basis of Sproule's classification of reserves and values presented in the report:

"Proven Reserves" are defined as the quantities of crude oil, natural gas and natural gas by-products, which, upon

| Drilling                                      | Gross wells* |       | Net wells** |       |
|-----------------------------------------------|--------------|-------|-------------|-------|
|                                               | 1981         | 1980  | 1981        | 1980  |
| Exploratory wells                             |              |       |             |       |
| Oil                                           | 42           | 29    | 7.2         | 6.3   |
| Gas                                           | 24           | 32    | 4.5         | 6.2   |
| Dry                                           | 40           | 55    | 7.7         | 9.4   |
| Total                                         | 106          | 116   | 19.4        | 21.9  |
| Development wells                             |              |       |             |       |
| Oil                                           | 29           | 27    | 6.4         | 5.7   |
| Gas                                           | 9            | 3     | 2.5         | 0.3   |
| Dry                                           | 15           | 2     | 3.0         | 0.4   |
| Total                                         | 53           | 32    | 11.9        | 6.4   |
| Total wells                                   | 159          | 148   | 31.3        | 28.3  |
| Percent of total wells successfully completed | 65.4%        | 61.5% | 65.8%       | 65.4% |

\* Total wells which Union participated in drilling

\*\* Net working interest wells drilled by Union

analysis of geologic and engineering data, appear with reasonable certainty to be recoverable at commercial rates in the future from known oil and gas reservoirs under presently anticipated economic and operating conditions.

“Probable Reserves” are considered to be those reserves commercially recoverable as a result of the beneficial effects which may be derived from the future institution of some form of pressure maintenance or other enhanced recovery method, or as a result of a more favourable performance of the existing recovery mechanism than may reasonably be assumed to exist because of geophysical or geological indications and drilling done in regions which contain proven reserves.

| Reserves position (before deducting royalties)* |           |           |           |
|-------------------------------------------------|-----------|-----------|-----------|
| As at December 31, 1980                         | Proven    | Probable  | Total     |
| Crude oil and natural gas liquids (BBLs)        | 3,261,000 | 1,868,300 | 5,129,300 |
| Natural gas (MMCF)                              | 145,200   | 61,300    | 206,500   |

\*and before giving effect to 10% net profits interest to Precambrian.

As at December 31, 1979 Union had internally estimated proven and probable natural gas reserves of 202,000 MMCF and crude oil and liquids reserves of 2,800,000 BBLs.

Exploration and development drilling continued at an active level during the year.

| Production (net after royalties)         | Fiscal years |        |
|------------------------------------------|--------------|--------|
|                                          | 1981         | 1980   |
| Crude oil and natural gas liquids (BBLs) | 128,600      | 83,800 |
| Natural gas (MMCF)                       | 336.2        | 272.7  |

A significant part of the Company’s natural gas reserves remain shut-in until new gas markets develop. Some progress will be made with the connection to market of gas wells in the Hoadley and Lovett River areas. In addition, the Company is actively attempting to secure immediate markets for shut-in gas reserves held in east central Alberta. Union’s net crude oil production in fiscal 1982 should see a

major improvement reflecting new Cardium oil production coming on stream at Ricinus and the Company’s 29% interest in a Nisku oil discovery in the West Pembina area.

Oil and Gas Exploration

In fiscal 1982 Union expects to participate in the drilling of at least 100 gross wells. Some of the exploration prospects are discussed below.

In the general Pine Creek area of Alberta, Union has interests varying between 9% and 15% in approximately 90,000 gross acres of petroleum and natural gas rights. The area is receiving active exploration attention by industry. During the coming year the Company will engage in a seismic survey of this area and will participate in the drilling of two exploratory wells. Union’s land holding leaves it well positioned to take advantage of discoveries made by others in this area.

In the Bougie Creek-Tenaka areas of British Columbia, Union also has exposure to a major land spread and expects to maintain an average 12% working interest in two Slave Point exploratory tests in fiscal 1982. This area has the potential for significantly increasing the Company’s gas reserves and the further development of these reserves would await the securing of gas sales contracts.

At Rat Creek, in the West Pembina area, Union has a 29% interest in a Nisku oil well. A second follow-up is currently being drilled to further delineate this pool.

Union and its partners are continuing delineation drilling at Sibbald, Alberta, and are completing engineering studies for water-flooding this pool. A successful waterflood will result in substantial improvements in the pool reserves and daily oil production.

At Ricinus Union has participated in the drilling of three Cardium oil wells, which appear capable of producing 100 barrels per day. In July, 1980, Union purchased a 20% interest in three offsetting sections on which development drilling is expected to commence this summer.



Left: Union Gas participated with several other companies in the drilling of 159 wells — both exploratory and developmental — during fiscal 1981, with a success ratio of 65.4%.

Right: Included in the program were: 16 wells in the Sibbald area, 250 kilometres east of Calgary, near the Saskatchewan border. Nine of these wells struck oil and Union is sharing in their production.



In the general Lloydminster heavy oil region, Union has interests in approximately 370,000 gross acres (51,000 net acres) which will see an active exploration and development program in fiscal 1982.

## Coal

Union holds title to 43,500 gross acres of coal rights in the general Lethbridge area of Southern Alberta. Union's coal holdings are concentrated in three major land blocks shown below. The coal underlying these lands is located in the Galt seam and is a high quality Bituminous coal which contains less than 0.6% sulphur.

|                 | Operator    | Gross acres | Union net acres |
|-----------------|-------------|-------------|-----------------|
| Lethbridge-Kipp | PetroCanada | 31,473      | 6,295           |
| Shaughnessy     | Petrofina   | 7,969       | 4,383           |
| Grassy Lake     | Petrofina   | 4,055       | 2,028           |
|                 |             | 43,497      | 12,706          |

An independent coal geological and engineering consulting firm has been retained to assess the reserves for the Kipp and Shaughnessy land blocks. The indicated and inferred reserves before royalties net to Union aggregate to 40 million tonnes.

At Kipp, PetroCanada (80%) and Union (20%) have been operating an experimental underground mine to test mining conditions and to secure bulk samples of the coal for evaluation by potential purchasers. The results of the experimental mining, laboratory quality tests and burn tests are expected to be finalized by mid-year and will form the basis for a decision to proceed with commercial mining or temporarily defer the project. A possible mining operation at Kipp can be expected to produce between 1.1 million and 1.5 million tonnes of clean coal annually. Initial capital costs are estimated at \$70 million to \$100 million. Several potential purchasers have expressed serious interest in long-term coal purchase contracts, subject to agreement on pricing.

At Shaughnessy, Petrofina (45%) and Union (55%) have conducted additional delineation and exploratory drilling,

which has confirmed earlier expectations regarding coal quality and reserves. Additional drilling will be conducted this summer to help define the location of an experimental mine. Application for this mine is expected to be filed later this year, with experimental mining planned for the last half of calendar 1982. The apparent mining conditions and coal quality are virtually the same as at the Kipp mine.

The technical merits of the coal properties, combined with a major shift to increasing world wide utilization of coal, add significantly to their value as assets and as a potentially large source of future cash flow.

## Numac Oil & Gas Ltd.

On June 11, 1980 Union acquired an 10.7% equity position in Numac, which was subsequently increased to 13.7%. The Company intends to continue to increase its interest in Numac up to about 20%.

Union entered into several oil and gas exploration and development ventures with Numac during fiscal 1981. To March 31, 1981 Union has paid \$2.3 million to Numac, primarily for the acquisition of petroleum and natural gas rights in Alberta.

The association, though less than a year old, has already proven advantageous to Union, in terms of establishing a significant presence in Western Canada. Union expects the joint ventures to have a favourable impact on future earnings.



Union Gas holds a 20% interest in a 31,473 acre coal property at Kipp, Alberta, north of Lethbridge. Experimental mining is underway, with a view to determining the feasibility of establishing a commercial underground operation. Here, three miners are lowered down the mine shaft in a large bucket which serves as a hoist.

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## Responsibilities for Financial Statements

The accompanying consolidated balance sheet as at March 31, 1981 and related consolidated statements of income, retained earnings and changes in financial position for the year then ended, including the notes to the financial statements, were prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements necessarily involves the use of estimates requiring careful judgement in those circumstances where transactions affecting a current period are dependent upon future events.

Management is responsible for the integrity and objectivity of the information contained in the financial statements and elsewhere in this Annual Report. The Company's accounting procedures and related systems of internal control are designed to provide assurance that the accounting records are reliable and to safeguard the Company's assets. The accompanying consolidated financial statements have been prepared in accordance with policies and procedures established by management and, in

management's opinion, reflect fairly the Company's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined on pages 35 and 36.

The Company's external auditors are appointed by the shareholders to provide an independent review of management's discharge of their responsibilities, as they relate to the fairness of reported consolidated operating results and financial condition of the Company, in accordance with generally accepted accounting principles.

An Audit Committee of the Board of Directors, comprised of non-management directors, is appointed annually. This committee meets regularly with management and with external and internal auditors without management present, to review the financial position of the Company and results of the audits carried out during the year. In addition, this committee reviews the annual financial statements of the Company before their submission to the Board for approval.

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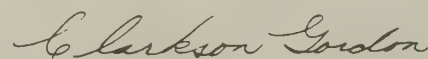
## Auditors' Report

To the Shareholders of Union Gas Limited:

We have examined the consolidated balance sheet of Union Gas Limited as at March 31, 1981 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1981 and the results of its operations and the changes in its financial

position for the year then ended in accordance with generally accepted accounting principles which were applied, except for the change in the method of capitalizing interest by Major Holdings & Developments Limited and after giving retroactive effect to the change in accounting for synthetic natural gas supply, both as described in note 2, on a basis consistent with that of the preceding year.



Chartered Accountants  
Toronto, Canada, May 1, 1981

**Union Gas Limited**  
**Consolidated Statement of Income**

|        |                                                                                                    | Year ended March 31 |           |
|--------|----------------------------------------------------------------------------------------------------|---------------------|-----------|
|        | Thousands of dollars                                                                               | 1981                | 1980      |
| Income | Gas sales                                                                                          | \$782,742           | \$655,143 |
|        | Cost of gas sold                                                                                   | 627,677             | 522,819   |
|        | Gas sales margin                                                                                   | 155,065             | 132,324   |
|        | Transportation and storage of gas                                                                  | 23,275              | 21,791    |
|        | Other                                                                                              | 18,528              | 15,677    |
|        |                                                                                                    | 196,868             | 169,792   |
|        | Expenses:                                                                                          |                     |           |
|        | Operating and maintenance                                                                          | 73,443              | 67,023    |
|        | Depreciation and amortization                                                                      | 18,745              | 17,065    |
|        | Property taxes                                                                                     | 8,193               | 7,342     |
|        |                                                                                                    | 100,381             | 91,430    |
|        | Operating income                                                                                   | 96,487              | 78,362    |
|        | Other income:                                                                                      |                     |           |
|        | Loss on realty operations                                                                          | (1,212)             | (588)     |
|        | Allowance for funds used during construction                                                       | 643                 | 897       |
|        | Other                                                                                              | 1,915               | 1,170     |
|        |                                                                                                    | 1,346               | 1,479     |
|        | Income before interest and income taxes<br>and extraordinary item                                  | 97,833              | 79,841    |
|        | Interest expense:                                                                                  |                     |           |
|        | Long-term debt                                                                                     | 31,509              | 24,032    |
|        | Short-term debt                                                                                    | 20,198              | 17,823    |
|        | Less interest deferred (note 7)                                                                    | (12,200)            | (8,723)   |
|        |                                                                                                    | 39,507              | 33,132    |
|        | Income before income taxes<br>and extraordinary item                                               | 58,326              | 46,709    |
|        | Income taxes — deferred                                                                            | 28,933              | 22,998    |
|        | Income before extraordinary item                                                                   | 29,393              | 23,711    |
|        | Discontinuance of appliance sales operation<br>(net of related income taxes of \$422,000) (note 8) | 423                 |           |
|        | Net income                                                                                         | 28,970              | 23,711    |
|        | Preferred dividend requirements                                                                    | 7,461               | 5,960     |
|        | Balance attributable to common shares                                                              | \$ 21,509           | \$ 17,751 |

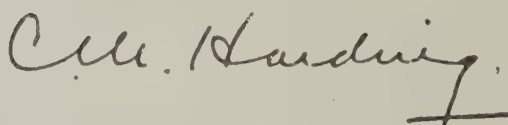
|                  |                                      |        |        |
|------------------|--------------------------------------|--------|--------|
| Per Common Share | Earnings — Dollars per common share: |        |        |
|                  | Basic                                |        |        |
|                  | Income before extraordinary item     | \$1.10 | \$0.97 |
|                  | Net income                           | \$1.08 | \$0.97 |
|                  | Fully diluted                        |        |        |
|                  | Income before extraordinary item     | \$1.07 | \$0.96 |
|                  | Net income                           | \$1.05 | \$0.96 |

See accompanying accounting policies and notes

**Union Gas Limited** (Incorporated under the laws of Ontario)  
**Consolidated Balance Sheet**

|                      |                                                                                  | March 31  |           |
|----------------------|----------------------------------------------------------------------------------|-----------|-----------|
| Thousands of dollars |                                                                                  | 1981      | 1980      |
| Assets               | Current assets:                                                                  |           |           |
|                      | Accounts receivable (note 3)                                                     | \$148,102 | \$116,531 |
|                      | Inventories                                                                      |           |           |
|                      | Gas in underground storage (18.6 BCF in 1981,<br>28.9 BCF in 1980) (note 2)      | 52,711    | 65,220    |
|                      | Merchandise, stores and spare equipment                                          | 12,666    | 12,658    |
|                      |                                                                                  | 213,479   | 194,409   |
|                      | Utility property, plant and equipment at cost (note 4)                           | 704,796   | 653,404   |
|                      | Less accumulated depreciation                                                    | 133,038   | 118,176   |
|                      |                                                                                  | 571,758   | 535,228   |
|                      | Deferred charges:                                                                |           |           |
|                      | Synthetic natural gas supply premium (note 2)                                    | 29,976    | 28,848    |
|                      | Other                                                                            | 7,662     | 9,169     |
|                      |                                                                                  | 37,638    | 38,017    |
|                      | Investments:                                                                     |           |           |
|                      | Major Holdings & Developments Limited (note 2)                                   | 16,749    | 16,604    |
|                      | Numac Oil & Gas Ltd., at cost (market value<br>at March 31, 1981 — \$40,386,000) | 50,362    |           |
|                      |                                                                                  | 67,111    | 16,604    |
|                      | Western Canada exploration and development costs                                 | 105,831   | 71,527    |
|                      |                                                                                  | \$995,817 | \$855,785 |

On behalf of the Board:

 , Director

 , Director

|                      |                                          | March 31  |           |
|----------------------|------------------------------------------|-----------|-----------|
|                      |                                          | 1981      | 1980      |
| Liabilities          | Current liabilities:                     |           |           |
|                      | Short-term borrowings                    | \$ 89,547 | \$ 98,439 |
|                      | Accounts payable and accrued charges     | 98,197    | 70,703    |
|                      | Dividends payable                        | 6,197     | 3,891     |
|                      | Deferred income taxes — current (note 2) | 7,286     | 7,530     |
|                      |                                          | 201,227   | 180,563   |
|                      | Long-term debt (note 5)                  | 292,560   | 305,247   |
|                      |                                          |           |           |
|                      | Deferred income taxes (note 2)           | 155,096   | 127,301   |
|                      | Contingency (note 1)                     |           |           |
| Shareholders' equity | Share capital (note 6):                  |           |           |
|                      | Preference shares                        | 95,671    | 78,308    |
|                      | Common shares                            | 169,947   | 84,846    |
|                      |                                          | 265,618   | 163,154   |
|                      | Retained earnings                        | 81,316    | 79,520    |
|                      |                                          | 346,934   | 242,674   |
|                      |                                          |           |           |
|                      |                                          | \$995,817 | \$855,785 |

See accompanying accounting policies and notes

**Union Gas Limited**  
**Consolidated Statement of Retained Earnings**

|                                                                              | Year ended March 31 |           |
|------------------------------------------------------------------------------|---------------------|-----------|
| Thousands of dollars                                                         | 1981                | 1980      |
| Balance, beginning of year                                                   | \$ 79,520           | \$ 75,532 |
| Net income                                                                   | 28,970              | 23,711    |
|                                                                              | 108,490             | 99,243    |
| Deduct:                                                                      |                     |           |
| Dividends declared (note 6)                                                  | 23,742              | 19,567    |
| Amortization of expenses on issue of Class B preference shares               | 285                 | 156       |
| Write off of unamortized issue costs of Class B preference shares Series 1   | 303                 |           |
| Underwriting commission and other related expenses of the common share issue | 2,844               |           |
|                                                                              | 27,174              | 19,723    |
| Balance, end of year                                                         | \$ 81,316           | \$ 79,520 |

See accompanying accounting policies and notes

**Union Gas Limited**  
**Consolidated Statement of Changes in Financial Position**

|                                          |                                                                                                                       | Year ended March 31 |                                  |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|---------------------|----------------------------------|
|                                          |                                                                                                                       | 1981                | 1980<br>(Restated<br>see note 2) |
| Thousands of dollars                     |                                                                                                                       |                     |                                  |
| Funds provided                           | From operations (note 9)                                                                                              | \$ 73,495           | \$ 62,836                        |
|                                          | Long-term debt                                                                                                        |                     | 59,500                           |
|                                          | Common shares issued                                                                                                  |                     |                                  |
|                                          | Public issue                                                                                                          | 47,725              |                                  |
|                                          | Conversion of preference shares                                                                                       | 20,515              | 3,625                            |
|                                          | Employee share purchase plans                                                                                         | 1,029               |                                  |
|                                          | Dividends reinvested                                                                                                  | 488                 | 420                              |
|                                          | Preference shares issued                                                                                              | 40,000              |                                  |
|                                          |                                                                                                                       | 183,252             | 126,381                          |
| Funds applied                            | Utility property, plant and equipment expenditures                                                                    | 55,830              | 57,274                           |
|                                          | Western Canada exploration and development costs                                                                      | 27,858              | 22,422                           |
|                                          | Retirement of long-term debt                                                                                          | 12,687              | 6,813                            |
|                                          | Increase in deferred SNG premium account                                                                              | 1,128               | 17,153                           |
|                                          | Dividends declared — preference shares                                                                                | 7,469               | 5,967                            |
|                                          | — common shares                                                                                                       | 16,273              | 13,600                           |
|                                          | Preference shares                                                                                                     |                     |                                  |
|                                          | Purchased for cancellation                                                                                            | 2,122               | 1,575                            |
|                                          | Converted to common shares                                                                                            | 20,515              | 3,625                            |
|                                          | Increase in investments                                                                                               |                     |                                  |
|                                          | Major Holdings & Developments Limited                                                                                 | 2,500               | 2,508                            |
|                                          | Numac Oil & Gas Ltd. (investment of \$50,362,000<br>net of Union Gas Limited common shares issued<br>at \$12,500,000) | 37,862              |                                  |
|                                          | Deferred charges and other items                                                                                      | 602                 | 338                              |
|                                          |                                                                                                                       | 184,846             | 131,275                          |
|                                          | Decrease in working capital                                                                                           | \$ (1,594)          | \$ (4,894)                       |
| Changes in Working<br>Capital Components | Accounts receivable                                                                                                   | \$ 31,571           | \$ 22,651                        |
|                                          | Gas in underground storage                                                                                            | (12,509)            | (1,256)                          |
|                                          | Short-term borrowings                                                                                                 | 8,892               | (22,761)                         |
|                                          | Accounts payable and other                                                                                            | (29,548)            | (3,528)                          |
|                                          | Decrease in working capital                                                                                           | \$ (1,594)          | \$ (4,894)                       |

See accompanying accounting policies and notes

# Major Holdings & Developments Limited

## Summarized Financial Statements

Year ended March 31

| Summarized Statement of Loss (\$000's)                                   | 1981     | 1980     |
|--------------------------------------------------------------------------|----------|----------|
| Realty revenue:                                                          |          |          |
| Land and housing sales                                                   | \$10,444 | \$12,849 |
| Rental income                                                            | 4,481    | 3,855    |
| Other                                                                    | 1,132    | 1,042    |
|                                                                          | 16,057   | 17,746   |
| Cost of realty operations:                                               |          |          |
| Cost of land and housing sold                                            | 9,095    | 11,604   |
| Cost of rental operations                                                | 5,419    | 4,345    |
| Other costs (note 2)                                                     | 5,778    | 4,464    |
|                                                                          | 20,292   | 20,413   |
| Loss before income taxes,<br>extraordinary item and minority<br>interest | 4,235    | 2,667    |
| Income taxes (recovery)                                                  | (2,020)  | (1,175)  |
| Extraordinary item                                                       | 150      |          |
| Minority interest                                                        | (6)      | (85)     |
|                                                                          | (1,876)  | (1,260)  |
| Net loss for the year                                                    | 2,359    | 1,407    |
| Elimination of inter-company interest                                    | (1,147)  | (819)    |
| Net loss attributable to the Company's<br>investment in Major            | \$ 1,212 | \$ 588   |

March 31

| Summarized Balance Sheet (\$000's)                                                                             | 1981     | 1980     |
|----------------------------------------------------------------------------------------------------------------|----------|----------|
| Realty asset:                                                                                                  |          |          |
| Properties held for development and<br>sale (note 2)                                                           | \$73,613 | \$70,743 |
| Investment properties less<br>accumulated depreciation<br>of \$637,000 at March 31, 1981<br>(1980 — \$652,000) | 24,123   | 29,052   |
| Sale agreements and mortgages and<br>other assets receivable                                                   | 21,327   | 20,593   |
|                                                                                                                | 119,063  | 120,388  |
| Less realty debt:                                                                                              |          |          |
| Term loans and mortgages payable                                                                               | 45,924   | 61,129   |
| Bank indebtedness                                                                                              | 41,455   | 25,622   |
| Other liabilities                                                                                              | 12,191   | 12,109   |
|                                                                                                                | 99,570   | 98,860   |
| Sub-total                                                                                                      | 19,493   | 21,528   |
| Less:                                                                                                          |          |          |
| Deferred income taxes                                                                                          | 2,430    | 4,601    |
| Minority interest                                                                                              | 313      | 323      |
|                                                                                                                | 2,743    | 4,924    |
| Book value of the Company's interest<br>in net realty assets                                                   | \$16,750 | \$16,604 |
| Consisting of:                                                                                                 |          |          |
| Interest bearing advances                                                                                      | \$ 2,700 | \$ 6,700 |
| Investment in shares —common                                                                                   | 7,550    | 9,904    |
| — preference                                                                                                   | 6,500    |          |
|                                                                                                                | \$16,750 | \$16,604 |

Year ended March 31

| Summarized Statement of Changes<br>in Financial Position (\$000's) | 1981     | 1980     |
|--------------------------------------------------------------------|----------|----------|
| Cash used for:                                                     |          |          |
| Land acquisitions, development and<br>carrying costs               | \$11,954 | \$12,669 |
| Housing construction costs                                         | 337      | 1,494    |
| Investment properties constructed                                  | (5,580)  | 3,914    |
| Repayment of mortgages payable                                     | 17,579   | 6,914    |
| Dividends                                                          | 22       | 238      |
| Increase in accounts receivable                                    | 810      | 955      |
| Other                                                              |          | 383      |
|                                                                    | 25,122   | 26,567   |
| Cash provided by:                                                  |          |          |
| Operations                                                         | (4,955)  | (2,436)  |
| Land, development and housing costs<br>realized through sales      | 7,851    | 9,720    |
| Mortgages on land, housing and<br>investment properties            | 2,374    | 10,851   |
| Advance from Union Gas Limited<br>(repayment)                      | (4,000)  | 2,500    |
| Preference shares issued to<br>Union Gas Limited                   | 6,500    |          |
| Other                                                              | 1,519    | 159      |
|                                                                    | 9,289    | 20,794   |
| Increase in bank indebtedness                                      | \$15,833 | \$ 5,773 |

Term loans and mortgages payable at March 31, 1981 bear interest at an average rate of 13.5% with approximate principal payments due in the years ending March 31:

|            |              |
|------------|--------------|
| 1982       | \$10,177,000 |
| 1983       | 1,649,000    |
| 1984       | 22,350,000   |
| 1985       | 3,935,000    |
| 1986       | 245,000      |
| Subsequent | 7,768,000    |
|            | \$46,124,000 |

Mortgages payable are secured by property held for development and sale and investment properties. Bank indebtedness is secured by an assignment of mortgages, notes and other amounts receivable, fixed charges on certain properties and floating charges on all the assets of Major.

Interest on realty debt is as follows (note 2):

|                                                                              | Year ended March 31 |          |
|------------------------------------------------------------------------------|---------------------|----------|
| (\$000's)                                                                    | 1981                | 1980     |
| Amount capitalized                                                           | \$ 5,688            | \$ 5,885 |
| Amount charged as expenses and<br>included as a cost of realty<br>operations | 7,929               | 5,075    |
|                                                                              | \$13,617            | \$10,960 |

Depreciation on realty assets is included as a cost of realty operations.

## Union Gas Limited

### Significant Accounting Policies

|                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Basis for Consolidation                             | The accompanying financial statements consolidate the accounts of Union Gas Limited and its subsidiary, Union Gas Investments Limited, a wholly-owned holding company. Owing to the differing nature of utility and real estate operations                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | the Company's investment in Major Holdings & Developments Limited (Major), a 99.7% owned real estate company, is accounted for on the equity basis. Summarized financial statements for Major are attached.                                                                                                                                                                                                                                                                                                                                                                                  |
| Regulation                                          | The utility operations are subject to regulation under The Ontario Energy Board Act and The Energy Act, 1971 (Ontario). Rate revenue schedules are approved periodically by the Ontario Energy Board and are designed to provide a fair                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | and reasonable return on the utility investment after recovering the utility cost of service. Realization of the allowed rate of return is subject to actual operating conditions experienced during the year.                                                                                                                                                                                                                                                                                                                                                                               |
| Gas Sales and Cost of Gas                           | Gas sales revenue is recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the month.<br>In the matching of gas sales and cost of gas sold, volumetric differences arise from the measurement process. The Company estimates the level of these volumetric differences based on engineering studies and, when making an                                                                                                                                                                                                                                                                                                                      | application to the Ontario Energy Board, includes this estimated level in the cost of service requested for the determination of customer sales rates. Annual fluctuations from the estimated level are amortized over a period of three years. The cost of gas includes both the estimated level of volumetric differences and the amortization of annual fluctuations.                                                                                                                                                                                                                     |
| Utility Property, Plant, Equipment and Depreciation | Property is carried at cost which includes all direct costs, an allocation of overhead incurred, and an allowance for funds used during construction applicable to the new property.<br>The original cost of depreciable units retired, together with the net cost of removal less salvage, is charged to accumulated depreciation.                                                                                                                                                                                                                                                                                                                                                                                    | Depreciation is provided on the straight-line basis at various rates based on the remaining useful service life of each class of property determined by periodic reviews of consultants and approved as appropriate by the Ontario Energy Board.                                                                                                                                                                                                                                                                                                                                             |
| Western Canada Exploration and Development          | In addition to Ontario exploration and development, which is classified as part of the utility operation, the Company is involved in a comprehensive exploration and development program in Western Canada. These expenditures are not part of the utility operation.<br>The Company follows the full cost method of accounting for this program whereby all costs related to exploration and development of oil, gas and coal reserves in this geographic area are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges on non-producing properties and costs of drilling both productive and non-productive wells. Annual depletion is provided on a unit-of- | production basis.<br>The gas and oil properties held in two major joint ventures are considered by management to be in the exploration and development stage. Accordingly, accumulated expenditures of \$86,902,000 to March 31, 1981 (1980 \$61,169,000), which include interest on funds borrowed to finance this participation, less accumulated revenues of \$1,399,000, are deferred in the consolidated accounts. On the commencement of commercial production, revenues and interest expense will be included in the consolidated statement of income and depletion will be provided. |
| Income Taxes                                        | The Company accounts for income taxes by the tax allocation method. Income tax expense is the amount that would be payable if statutory tax deductions for oil and gas exploration costs, depreciation, unbilled customer usage and other items did not differ from those recorded in the                                                                                                                                                                                                                                                                                                                                                                                                                              | financial statements. This method recognizes the deferral of income taxes to future years when amounts deductible for income tax purposes will be less than those recorded in the accounts. Where deferred income taxes relate to current assets they are reflected as current liabilities.                                                                                                                                                                                                                                                                                                  |
| Inventories                                         | Inventory of gas held in underground storage available for current sale is valued at cost from suppliers other than Petrosar Limited on the                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | first-in, first-out basis. Inventories of merchandise, stores and spare equipment are valued at the lower of average cost and replacement cost.                                                                                                                                                                                                                                                                                                                                                                                                                                              |

|                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Realty Operations            | <p>The realty operations are carried on through Major, which is not part of the utility operation.</p> <p>A significant portion of realty assets represents property held for development and sale which is carried at the lower of cost, including applicable interest and property taxes, and net realizable value; related debt is renewed as required or is repaid as properties are sold. Investment properties are carried at cost less accumulated depreciation which is provided primarily using the sinking fund method based on a 5% interest rate</p> | <p>over 50 years. Realty income is recognized as follows:</p> <p>(i) income from land sales is recognized when all material conditions have been satisfied and collection of the unpaid balance is reasonably assured;</p> <p>(ii) income from condominium sales is recognized, after sufficient units have been sold, when the purchaser pays the amount due on closing, is entitled to occupancy and undertakes to assume a mortgage for the balance of the sale price.</p> |
| Employee Pension Plan        | <p>Based on a valuation by consulting actuaries, the unfunded obligation which has resulted from revisions and revaluations of the Company's pension plan is approximately \$6,550,000 at March 31, 1981 (1980 — \$7,000,000). The past service obligation and changes resulting from revisions to the plan are charged to operations</p>                                                                                                                                                                                                                        | <p>over a fifteen-year period from the date of the revision. Changes in the obligation due to revaluations of the plan are charged to operations over a five-year period.</p> <p>Amounts charged against operations in respect of the unfunded liability were \$1,282,000 in 1981 and \$1,344,000 in 1980.</p>                                                                                                                                                                |
| Earnings per Common Share    | <p>Basic earnings per share are calculated on the basis of the weighted average number of common shares outstanding during the year, which was 19,849,443 (1980 — 18,273,882) shares. Fully</p>                                                                                                                                                                                                                                                                                                                                                                  | <p>diluted earnings per share assume the conversion, where applicable, of the Class B preference shares and the exercise of all outstanding stock options as at the beginning of each fiscal year.</p>                                                                                                                                                                                                                                                                        |
| Foreign Currency Translation | <p>Current assets and current liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Long-term assets and liabilities are translated at historical rates. Revenue</p>                                                                                                                                                                                                                                                                                                                                        | <p>and expense items are translated using the average rate of exchange throughout the year. Gains and losses arising on translation are included in income.</p>                                                                                                                                                                                                                                                                                                               |

|                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Contingency                 | <p>The Company has entered into a long-term supply contract with Petrosar Limited for the annual purchase of approximately 8.8 BCF of synthetic natural gas (SNG) until 1993. This level of purchase represents approximately 3% of the Company's current annual purchases. The pricing formula in the contract relates to the domestic oil price and results in a price higher than that payable to regular suppliers of natural gas. This excess cost (premium) amounts to \$3.62 per MCF at March 31, 1981.</p> <p>During the year, the Company concluded an agreement with Transcontinental Gas Pipe Line Corporation of Houston, Texas (Transco) and received regulatory approvals extending to March 31, 1985 for the sale to Transco of the energy equivalent of all SNG that has been or will be purchased during the term of the Petrosar Gas Supply Agreement. The Transco agreement provides for annual deliveries of up to 10 BCF at a price equal to the Canadian border price in effect from time to time. At March 31, 1981 this exceeds the price paid to regular suppliers of natural gas by \$2.47 per MCF. The agreement with Transco may be terminated by either party if necessary regulatory approvals are not obtained within 30 days following the effective date of a change in the export price. The continuation of the contract will be dependent upon receiving regulatory approvals</p> | <p>as the export price changes. An announced export price increase of April 1, 1981 has received regulatory approval.</p> <p>In addition, the Company has entered into a series of short-term energy exchange agreements to supply to Petrosar Limited certain quantities of natural gas with a pricing formula which results in a price exceeding the cost of normal gas supply by \$2.36 per MCF at March 31, 1981. During fiscal 1981 approximately 5 BCF of gas was delivered to Petrosar Limited under these agreements. The most recent agreement extends to March 31, 1982.</p> <p>The Company requires Ontario Energy Board (OEB) approval to include the excess cost from the Petrosar contract, less any cost recovered through export sales or exchange agreements, in customer rates. This matter is currently under review by the OEB and the Company has accordingly deferred the excess cost of this inventory until such time as the matter is resolved.</p> <p>Pending final determination of the rate making treatment by the OEB of the excess cost of SNG supply and the continuation of revenues from export sales to Transco and from future exchange agreements with Petrosar Limited the Company is unable to forecast the ultimate effect of the SNG contract on its financial position or earnings.</p> |
| 2. Change in Accounting Policy | <p>Major Holdings &amp; Developments Limited —</p> <p>Commencing April 1, 1980 Major changed its method of capitalizing interest on its accumulated costs of properties held for development and sale to an alternative industry practice. Under the new policy interest is capitalized up to the time of sale, whereas previously interest was capitalized only until the property was offered for sale or development was completed. The effect of this change in the method of capitalizing interest is to decrease Major's net loss and to increase the Company's earnings for the year ended March 31, 1981 by \$956,000 or 5¢ per share. This change has not been retroactively applied.</p> <p>Synthetic natural gas supply —</p> <p>The Company changed its accounting treatment</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <p>for the costs of SNG inventory by classifying as regular inventory the displacement equivalent of SNG purchases valued at rates from regular suppliers and recording the excess (premium) together with related deferred interest as a deferred charge. The premium is reduced by recoveries through export sales and exchange agreements (note 1). This change was retroactively applied and recognizes the long-term nature of the SNG premium. The effect of this change together with the reclassification of deferred income taxes associated with the premium, has been to reduce working capital by \$15,071,000 in 1981 (\$15,643,000 in 1980) with no effect on net income.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 3. Accounts Receivable         | <p>Accounts receivable include unbilled customers' usage of gas amounting to \$18,825,000 at March 31, 1981 (1980 — \$16,922,000).</p> <p>As part of its normal operations, the Company offers deferred payment finance plans for</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>equipment sales and installation costs. Accounts receivable include merchandise finance plan accounts of which \$3,686,000 at March 31, 1981 (1980 — \$4,248,000) are not due within twelve months.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

#### 4. Utility Property, Plant and Equipment

Property, plant and equipment relate to utility operations and include distribution systems, transmission lines, Ontario gas wells and gathering lines, gas storage facilities, base pressure gas,

land and buildings. A summary analysis of the cost of property and accumulated depreciation is as follows:

| Thousands of dollars | March 31, 1981 |                          | March 31, 1980 |                          |
|----------------------|----------------|--------------------------|----------------|--------------------------|
|                      | Cost           | Accumulated depreciation | Cost           | Accumulated depreciation |
| Production           | \$ 5,686       | \$ 1,636                 | \$ 5,146       | \$ 1,611                 |
| Storage              | 62,456         | 9,064                    | 59,462         | 8,013                    |
| Transmission         | 168,927        | 33,194                   | 163,520        | 30,004                   |
| Distribution         | 385,365        | 58,622                   | 350,636        | 52,569                   |
| General              | 82,362         | 30,522                   | 74,640         | 25,979                   |
|                      | \$704,796      | \$133,038                | \$653,404      | \$118,176                |

Depreciation rates provided during the year ended March 31, 1981 resulted in a composite rate of 3.18% (1980 — 3.17%).

Depreciation and amortization shown on the consolidated statement of income includes those amounts charged directly as an operating expense in the Company's accounts. In addition,

\$1,177,000 (1980 — \$1,118,000) was allocated partly to other expense accounts and partly to property accounts.

Allowance for funds used during construction is included in cost of utility property computed at a rate of 15.75% in 1981 (1980 — 14%).

#### 5. Long-term Debt

Details of the sinking fund debentures are as follows:

| Thousands of dollars                                          | Total outstanding | Current liability | Long-term portion March 31 |           |
|---------------------------------------------------------------|-------------------|-------------------|----------------------------|-----------|
|                                                               |                   |                   | 1981                       | 1980      |
| 6¼% 1961 Series, due July 15, 1981                            | \$ 4,710          | \$4,710           |                            | \$ 4,774  |
| 6¼% 1963 Series, due August 15, 1983                          | 6,035             | 81                | \$ 5,954                   | 6,515     |
| 6¾% 1965 Series, due September 1, 1985                        | 8,517             | 442               | 8,075                      | 8,681     |
| 7½% 1967 Series, due January 5, 1987                          | 9,072             | 372               | 8,700                      | 9,279     |
| 7¾% 1968 Series, due August 1, 1988                           | 13,253            |                   | 13,253                     | 13,955    |
| 9½% 1970 Series, due April 1, 1990                            | 100               |                   | 100                        | 200       |
| 8% 1971 Series, due November 15, 1991                         | 16,538            | 188               | 16,350                     | 17,079    |
| 8¾% 1972 Series, due November 15, 1992                        | 12,671            |                   | 12,671                     | 13,379    |
| 8% 1972 U.S. Series, due November 15, 1992 (U.S. \$8,925,000) | 8,766             | 368               | 8,398                      | 8,766     |
| 8¼% 1973 Series, due June 1, 1993                             | 17,814            |                   | 17,814                     | 18,500    |
| 11% 1974 Series, due August 15, 1994                          | 22,976            |                   | 22,976                     | 24,119    |
| 11¾% 1975 Series, due September 15, 1995                      | 28,638            |                   | 28,638                     | 30,000    |
| 10¾% 1976 Series, due July 15, 1996                           | 39,631            |                   | 39,631                     | 40,000    |
| 10% 1978 Series, due February 15, 1998                        | 50,000            |                   | 50,000                     | 50,000    |
| 13¾% 1980 Series, due March 31, 2000                          | 60,000            |                   | 60,000                     | 60,000    |
| Total amounts per balance sheet                               | \$298,721         | \$6,161           | \$292,560                  | \$305,247 |

The U.S. Series is recorded at the exchange rate in effect at the date of issue; based on the exchange rate at March 31, 1981, \$10,592,000 Canadian would be required to discharge this series.

Principal payments required on these series

during the next five years ending March 31, are as follows:

|      |              |      |              |
|------|--------------|------|--------------|
| 1982 | \$ 6,161,000 | 1985 | \$11,930,000 |
| 1983 | 7,397,000    | 1986 | 17,392,000   |
| 1984 | 16,705,000   |      |              |

## 6. Share Capital

| (a) Details of share capital are set out below (Number of shares are as at March 31, 1981):                 |  | March 31  |           |
|-------------------------------------------------------------------------------------------------------------|--|-----------|-----------|
| Thousands of dollars                                                                                        |  | 1981      | 1980      |
| Preference shares:                                                                                          |  |           |           |
| Authorized                                                                                                  |  |           |           |
| Class A —                                                                                                   |  |           |           |
| 321,817 shares with a par value of \$50 each                                                                |  |           |           |
| Class B —                                                                                                   |  |           |           |
| 5,898,092 shares with a par value of \$20 each                                                              |  |           |           |
| Issued                                                                                                      |  |           |           |
| Class A (see (b) below) —                                                                                   |  |           |           |
| 123,617 Series A, 5½%                                                                                       |  | \$ 6,181  | \$ 6,312  |
| 90,000 Series B, 6%                                                                                         |  | 4,500     | 4,500     |
| 108,200 Series C, 5%                                                                                        |  | 5,410     | 5,410     |
| Class B (see (c) below) —                                                                                   |  |           |           |
| Series 1, 8¾%                                                                                               |  |           | 21,306    |
| 99,000 Series 2, variable                                                                                   |  | 1,980     | 1,980     |
| 1,880,000 Series 3, 7%                                                                                      |  | 37,600    | 38,800    |
| 2,000,000 Series 4, 9⅞%                                                                                     |  | 40,000    |           |
|                                                                                                             |  | 95,671    | 78,308    |
| Common shares without par value:                                                                            |  |           |           |
| Authorized                                                                                                  |  |           |           |
| 42,205,169 shares                                                                                           |  |           |           |
| Issued                                                                                                      |  |           |           |
| Class A — 25,614,084 shares                                                                                 |  |           |           |
| Class B — 753,187 shares                                                                                    |  |           |           |
| <u>26,367,271</u>                                                                                           |  | 169,794   | 84,743    |
| 11,205 Class B common shares (9,116 in 1980) to be issued pursuant to stock dividends declared but not paid |  | 153       | 103       |
|                                                                                                             |  | \$265,618 | \$163,154 |

(b) The Class A preference shares are cumulative and are redeemable as follows:

Series A — at \$50.50 per share at any time

Series B — at \$55.00 per share at any time

Series C — at \$50.50 per share at any time

Under the conditions attaching to the Series A and Series C preference shares, the Company is committed to purchase shares on the open market for cancellation if their market prices fall to par or below as follows:

Series A — in amounts up to \$170,000 annually

Series C — in amounts up to \$140,000 annually.

As required by the Articles of the Company, a special allocation of retained earnings is shown on the books of the Company to reflect this commitment. During the fiscal year ended March 31, 1981, 2,614 Series A shares with an aggregate par value of \$130,700 were purchased and cancelled.

(c) The Class B preference shares, Series 2, are cumulative, redeemable and convertible shares. The dividend rate fluctuates to equate with the prime bank rate. These shares are redeemable at any time, at the option of the Company, at a redemption price of \$20 per share and must be redeemed before August 3, 1987. These shares are also redeemable at the option of the holder up to May 3, 1987 at a redemption price of \$20 per share and are convertible into common shares up to May 3, 1987, at a rate of 2.2 common shares for

each preference share.

The Class B preference shares, Series 3, are cumulative and redeemable shares. Through the operation of a mandatory sinking fund 60,000 of these shares will be redeemed on September 1 each year at a redemption price of \$20 per share. Other than for sinking fund purposes, these shares are not redeemable prior to September 1, 1983. On and after September 1, 1983 the shares will be redeemable at the option of the Company at a redemption price of \$21 per share if redeemed prior to September 1, 1984 and thereafter at prices gradually reducing to \$20 per share.

The Class B preference shares, Series 4, are cumulative, redeemable and retractable shares. Through the operation of a mandatory sinking fund, 100,000 of these shares will be redeemed on December 1 in each year commencing in 1981 at a redemption price of \$20 per share. Other than through the operation of this sinking fund, these shares are not redeemable until 1985, at which time they are redeemable at \$21 per share, at the option of the Company for one year and thereafter at reducing amounts to \$20 per share after December 1, 1985. The holders have the option to require the Company to redeem all or part of their purchased shares for \$20 on December 1, 1990 subject to the Company meeting the earning tests provided under the sinking fund debenture trust indenture.

(d) The Class A and B common shares are voting shares, interconvertible on a share for share basis and rank equally in all respects. During the year ended March 31, 1981, a net total of 68,301 shares was converted from Class A to Class B common shares. The only distinction between the two classes of shares is that the Directors may elect to pay stock dividends on Class B common shares in lieu of cash dividends.

(e) Changes in the number of common shares issued during the 1981 fiscal year are as follows:

161,880 Class B preference shares were converted into common shares, reducing the number of authorized and issued Class B preference shares by 161,880 and increasing the number of authorized and issued common shares by 356,136.

All of the outstanding Class B preference shares, Series 1 were called for redemption effective February 21, 1981. Of these shares 863,901 were converted into 1,900,579 common shares (on the basis of 2.2 common shares for each such share) and the remaining shares were redeemed at an aggregate redemption cost of \$856,000.

The net effect of these conversions has been to increase the issued common share capital by \$20,515,620.

On March 31, 1981, the Company issued 4,350,000 common shares for cash proceeds of \$50,568,750.

44,991 Class A common shares were issued under the market growth employee stock option

plan for no cash consideration.

1,000,000 Class A common shares with a stated value of \$12,500,000 were issued in exchange for 304,878 common shares of Numac Oil & Gas Ltd.

37,055 Class B common shares were issued as stock dividends.

8,074 Class A and Class B common shares were issued under the employee savings program for cash proceeds of \$101,000.

(f) Under a market growth employee stock option plan, senior employees are granted options, expiring after a period of six years from the date of granting, to acquire common shares of the Company for no cash consideration. The number of shares which may be received under the option increases with the growth in the market value of the common shares to a maximum of 50% of the options being exercised.

At March 31, 1981, options were outstanding which if exercised would result in the issue of 35,000 common shares based on the market value of the common shares at the year end, and a maximum of 78,000 common shares over the next five years.

In January 1981, the Company instituted a Key Executive stock option plan under which currently 400,000 shares may be issued, at not less than 90% of the average market price for the preceding month. On January 6, 1981 the Company issued 80,000 shares at a price of \$11.60 per share to a trustee on behalf of certain key executives and has recorded in accounts receivable a loan of \$928,000 related to this issue.

| (g) Dividends declared on share capital are as follows: |          | March 31 |      |
|---------------------------------------------------------|----------|----------|------|
| Thousands of dollars                                    |          | 1981     | 1980 |
| Preference shares (rate per annum):                     |          |          |      |
| Class A                                                 |          |          |      |
| Series A — \$2.75 per share                             | \$ 343   | \$ 354   |      |
| Series B — \$3.00 per share                             | 270      | 270      |      |
| Series C — \$2.50 per share                             | 271      | 271      |      |
| Class B                                                 |          |          |      |
| Series 1 — \$1.75 per share                             | 1,337    | 2,045    |      |
| Series 2 — \$3.64 per share (current indicated rate)    | 299      | 269      |      |
| Series 3 — \$1.40 per share                             | 2,674    | 2,758    |      |
| Series 4 — \$1.975 per share                            | 2,275    |          |      |
| Total preference dividends                              | 7,469    | 5,967    |      |
| Common shares:                                          |          |          |      |
| Class A                                                 | 15,780   | 13,173   |      |
| Class B                                                 | 493      | 427      |      |
| Total common dividends                                  | 16,273   | 13,600   |      |
| Total dividends                                         | \$23,742 | \$19,567 |      |

The trust indentures providing for the issue of the Company's debentures contain certain restrictions regarding the amount that may be paid as dividends. The consolidated retained earnings of

the Company at March 31, 1981 were free from limitation under the most stringent of these restrictions.

|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                  |                       |
|-------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|-----------------------|
| 7. Interest Expense                             | The amounts shown for interest, including long-term debt discount and expense amortized, are the amounts charged directly as an operating                                                                                                                                                                                                                                                                                                                                                                     | expense in the Company's accounts. In addition, interest was charged to other accounts as follows:                                                                                                                                                                                                                                                                                                                                                                                                          | March 31                                         |                       |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Thousands of dollars                             | 1981 1980             |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Synthetic natural gas supply premium             | \$ 5,661 \$5,442      |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Western Canada exploration and development costs | 6,539 3,281           |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                  | \$12,200 \$8,723      |
|                                                 | On October 1, 1980 the Company discontinued deferring interest on the regular gas cost portion of the SNG and is now deferring interest on only the                                                                                                                                                                                                                                                                                                                                                           | deferred premium and the two major joint ventures in Western Canada.                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                  |                       |
| 8. Discontinuance of Appliance Sales Operations | During the year the Company phased out the retail sale of gas appliances so as to concentrate selling efforts on the expected rapidly expanding                                                                                                                                                                                                                                                                                                                                                               | conversion market for home heating and water heating. This extraordinary item represents inventory disposal and employee termination costs.                                                                                                                                                                                                                                                                                                                                                                 |                                                  |                       |
| 9. Funds Provided from Operations               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | March 31                                         |                       |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Thousands of dollars                             | 1981 1980             |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                  | (Restated see note 2) |
|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Net income for the year                          | \$28,970 \$23,711     |
|                                                 | Add (deduct) amounts arriving at net income which did not involve an outlay of funds:                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                  |                       |
|                                                 | Depreciation and amortization                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 19,922                                           | 18,183                |
|                                                 | Deferred income taxes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 27,795                                           | 22,101                |
|                                                 | Interest deferred                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | (7,182)                                          | (4,178)               |
|                                                 | Share of loss of Major Holdings & Developments Limited (Appendix A)                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 2,359                                            | 1,407                 |
|                                                 | Miscellaneous                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 1,631                                            | 1,612                 |
|                                                 | Funds — provided from operations                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | \$73,495                                         | \$62,836              |
|                                                 | — per common share                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | \$3.70                                           | \$3.44                |
| 10. Capital Expenditures and Commitments        | The Company's utility capital expenditure program for the fiscal year ending March 31, 1982 is approximately \$85,126,000.<br>The company is committed to western Canadian                                                                                                                                                                                                                                                                                                                                    | exploration and development expenditures of approximately \$6,000,000 for the fiscal year ending March 31, 1982.                                                                                                                                                                                                                                                                                                                                                                                            |                                                  |                       |
| 11. Cost of Gas Measurement Adjustment          | The Company includes in the cost of gas an amount representing estimated gas measurement variations and unidentifiable losses based on the volume level recognized by the OEB in the determination of customer sales rates.<br>Based on its recent application to the OEB, the Company is providing for estimated gas measurement variations and unidentifiable losses of 3.5 BCF per annum (previously 6 BCF to March 31, 1980 as recognized by the OEB). For the year ended March 31, 1981, the Company has | experienced a volumetric difference lower than expected by .4 BCF or \$816,000 which has been recorded as deferred income and included in accounts payable and accrued charges on the consolidated balance sheet. The balance as at March 31, 1980 of \$5,157,000 which also resulted from lower than expected gas losses, is being amortized over a three year period thereby reducing the cost of gas in 1981 by \$1,719,000. The unamortized balance in the account as at March 31, 1981 is \$4,254,000. |                                                  |                       |
| 12. Comparative Amounts                         | Certain of the 1980 amounts have been reclassified to conform with the presentation adopted in 1981.                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                  |                       |
| 13. Segmented Information                       | The Board of Directors has determined that the Company operates in three business segments: (1) Utility operations; (2) Exploration and development of oil, gas and coal reserves and (3) Real estate operations. The gas utility operations involves the distribution of natural gas to its customers and the storage and transmission of natural gas for the Company's own use and use of other utilities. The oil, gas and coal operations                                                                 | have not reached significant commercial production and costs related to these programs have been capitalized under Western Canada exploration and development costs on the consolidated balance sheet. The real estate operations are conducted by Major Holdings & Developments Limited and the financial information related to this segment is disclosed on page 34.                                                                                                                                     |                                                  |                       |

# Union Gas Limited

## Financial Statistics

Thousands of dollars

Fiscal years ended March 31

|                                                                | 1981      | 1980      | 1979      | 1978      | 1977      | 1976      | 1975      |
|----------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Revenues, Expenses and Net Earnings</b>                     |           |           |           |           |           |           |           |
| Operating revenues:                                            |           |           |           |           |           |           |           |
| Gas sales                                                      | \$782,742 | \$655,143 | \$587,673 | \$506,884 | \$444,635 | \$305,877 | \$224,177 |
| Cost of gas                                                    | 627,677   | 522,819   | 462,985   | 391,209   | 331,644   | 213,023   | 145,981   |
| Gas sales margin                                               | 155,065   | 132,324   | 124,688   | 115,675   | 112,991   | 92,854    | 78,196    |
| Transportation and storage of gas                              | 23,275    | 21,791    | 20,920    | 24,613    | 17,159    | 13,281    | 10,544    |
| Other                                                          | 18,528    | 15,677    | 14,099    | 11,910    | 10,372    | 9,128     | 6,874     |
| Net operating revenue                                          | 196,868   | 169,792   | 159,707   | 152,198   | 140,522   | 115,263   | 95,614    |
| Operating expenses:                                            |           |           |           |           |           |           |           |
| Operating and maintenance costs                                | 81,636    | 74,365    | 67,228    | 61,736    | 56,453    | 49,074    | 41,323    |
| Depreciation and amortization                                  | 18,745    | 17,065    | 15,161    | 13,549    | 12,216    | 8,953     | 8,127     |
|                                                                | 100,381   | 91,430    | 82,389    | 75,285    | 68,669    | 58,027    | 49,450    |
| Operating income                                               | 96,487    | 78,362    | 77,318    | 76,913    | 71,853    | 57,236    | 46,164    |
| Realty Operations earnings (loss)                              | (1,212)   | (588)     | 1,077     | 835       | 1,233     | 618       | 324       |
| Allowance for funds used during construction                   | 643       | 897       | 833       | 1,250     | 503       | 505       | 975       |
| Other income                                                   | 1,915     | 1,170     | 755       | 529       | 812       | 573       | 587       |
|                                                                | 1,346     | 1,479     | 2,665     | 2,614     | 2,548     | 1,696     | 1,886     |
| Income before interest, income taxes and extraordinary items   | 97,833    | 79,841    | 79,983    | 79,527    | 74,401    | 58,932    | 48,050    |
| Interest charges:                                              |           |           |           |           |           |           |           |
| Long-term debt                                                 | 31,509    | 24,032    | 24,420    | 20,698    | 19,363    | 15,219    | 13,749    |
| Short-term debt                                                | 20,198    | 17,823    | 7,195     | 5,045     | 6,531     | 4,349     | 3,556     |
| Less interest deferred                                         | (12,200)  | (8,723)   | (2,032)   | (29)      | —         | —         | —         |
|                                                                | 39,507    | 33,132    | 29,583    | 25,714    | 25,894    | 19,568    | 17,305    |
| Income before income taxes and extraordinary item              | 58,326    | 46,709    | 50,400    | 53,813    | 48,507    | 39,364    | 30,745    |
| Income taxes                                                   | 28,933    | 22,998    | 23,775    | 25,158    | 22,904    | 19,043    | 15,682    |
| Income before extraordinary items                              | 29,393    | 23,711    | 26,625    | 28,655    | 25,603    | 20,321    | 15,063    |
| Discontinuance of appliance sales operation                    | 423       | —         | —         | —         | —         | —         | —         |
| Write-off of expenditures in Canadian Arctic Gas Study Limited | —         | —         | —         | 3,940     | —         | —         | —         |
| Net income                                                     | 28,970    | 23,711    | 26,625    | 24,715    | 25,603    | 20,321    | 15,063    |
| Preferred dividend requirements                                | 7,461     | 5,960     | 4,835     | 3,283     | 3,158     | 3,180     | 998       |
| Balance attributable to common shares                          | \$ 21,509 | \$ 17,751 | \$ 21,790 | \$ 21,432 | \$ 22,445 | \$ 17,141 | \$ 14,065 |
| <b>Earnings — Dollars per common share:*</b>                   |           |           |           |           |           |           |           |
| Basic                                                          |           |           |           |           |           |           |           |
| Income before extraordinary items                              | \$ 1.10   | \$ .97    | \$ 1.21   | \$ 1.41   | \$ 1.43   | \$ 1.13   | \$ .93    |
| Net income                                                     | \$ 1.08   | \$ .97    | \$ 1.21   | \$ 1.20   | \$ 1.43   | \$ 1.13   | \$ .93    |
| Fully diluted                                                  |           |           |           |           |           |           |           |
| Income before extraordinary items                              | \$ 1.07   | \$ .96    | \$ 1.15   | \$ 1.32   | \$ 1.32   | \$ 1.08   | \$ .92    |
| Net income                                                     | \$ 1.05   | \$ .96    | \$ 1.15   | \$ 1.13   | \$ 1.32   | \$ 1.08   | \$ .92    |
| Dividends declared per common share**                          | \$ .80    | \$ .74    | \$ .74    | \$ .74    | \$ .69    | \$ .64    | \$ .64    |

\* On basis of the weighted average number of shares outstanding during the year.

\*\* Annual rate per common share at end of period.

# Union Gas Limited

## Financial Statistics

Thousands of dollars

Fiscal years ended March 31

|                                                                  | 1981      | 1980      | 1979      | 1978      | 1977      | 1976      | 1975      |
|------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Condensed Balance Sheet</b>                                   |           |           |           |           |           |           |           |
| Assets:                                                          |           |           |           |           |           |           |           |
| Current assets                                                   | \$213,479 | \$194,409 | \$171,081 | \$144,776 | \$124,771 | \$125,452 | \$ 81,675 |
| Utility properties                                               | 704,796   | 653,404   | 600,932   | 546,921   | 491,843   | 447,256   | 406,488   |
| Less accumulated depreciation                                    | 133,038   | 118,176   | 105,698   | 96,712    | 87,056    | 78,765    | 73,351    |
| Net                                                              | 571,758   | 535,228   | 495,234   | 450,209   | 404,787   | 368,491   | 333,137   |
| Deferred charges                                                 |           |           |           |           |           |           |           |
| Synthetic natural gas supply premium                             | 29,976    | 28,848    | 11,695    | 1,105     | —         | —         | —         |
| Other                                                            | 7,662     | 9,169     | 9,692     | 13,473    | 17,711    | 16,006    | 13,751    |
|                                                                  | 37,638    | 38,017    | 21,387    | 14,578    | 17,711    | 16,006    | 13,751    |
| Investments                                                      |           |           |           |           |           |           |           |
| Major Holdings & Developments Limited                            | 16,749    | 16,604    | 14,393    | 10,056    | 9,662     | 4,093     | 4,037     |
| Numac Oil & Gas Ltd. — at cost                                   | 50,362    | —         | —         | —         | —         | —         | —         |
|                                                                  | 67,111    | 16,604    | 14,393    | 10,056    | 9,662     | 4,093     | 4,037     |
| Western Canada exploration and development costs                 | 105,831   | 71,527    | 46,003    | 10,865    | 2,785     | 1,807     | 1,839     |
| Total                                                            | \$995,817 | \$855,785 | \$748,098 | \$630,484 | \$559,716 | \$515,849 | \$434,439 |
| Liabilities:                                                     |           |           |           |           |           |           |           |
| Current liabilities                                              | \$201,227 | \$180,563 | \$152,341 | \$104,471 | \$ 96,581 | \$119,397 | \$ 75,217 |
| Long-term debt                                                   | 292,560   | 305,247   | 252,060   | 257,578   | 212,220   | 187,506   | 164,908   |
| Deferred income taxes                                            | 155,096   | 127,301   | 105,200   | 78,397    | 70,940    | 63,890    | 56,334    |
| Shareholders' equity                                             |           |           |           |           |           |           |           |
| Preference shares                                                | 95,671    | 78,308    | 83,508    | 44,149    | 42,445    | 43,014    | 43,309    |
| Common shares                                                    | 169,947   | 84,846    | 79,457    | 56,468    | 56,393    | 31,346    | 31,346    |
| Retained earnings                                                | 81,316    | 79,520    | 75,532    | 89,421    | 81,137    | 70,696    | 63,325    |
|                                                                  | 346,934   | 242,674   | 238,497   | 190,038   | 179,975   | 145,056   | 137,980   |
| Total                                                            | \$995,817 | \$855,785 | \$748,098 | \$630,484 | \$559,716 | \$515,849 | \$434,439 |
| Capital expenditures:                                            |           |           |           |           |           |           |           |
| Utility properties                                               |           |           |           |           |           |           |           |
| Plant additions                                                  | \$ 35,418 | \$ 35,187 | \$ 38,132 | \$ 41,038 | \$ 33,554 | \$ 34,721 | \$ 36,012 |
| Plant replacements                                               | 20,673    | 22,736    | 22,800    | 18,177    | 15,179    | 10,049    | 6,866     |
| Less gross value of plant retired                                | 4,699     | 5,451     | 6,921     | 4,137     | 4,146     | 4,034     | 2,314     |
| Net additions                                                    | 51,392    | 52,472    | 54,011    | 55,078    | 44,587    | 40,736    | 40,564    |
| Western Canada resource exploration and development expenditures | 34,304    | 25,524    | 35,138    | 8,080     | 978       | —         | 589       |
| Capital structure — per cent based on above amounts              |           |           |           |           |           |           |           |
| Long-term debt                                                   | 45.7%     | 55.7%     | 51.4%     | 57.5%     | 54.1%     | 56.4%     | 54.4%     |
| Preference shares                                                | 15.0%     | 14.3%     | 17.0%     | 9.9%      | 10.8%     | 12.9%     | 14.3%     |
| Common equity                                                    | 39.3%     | 30.0%     | 31.6%     | 32.6%     | 35.1%     | 30.7%     | 31.3%     |
| Total                                                            | 100.0%    | 100.0%    | 100.0%    | 100.0%    | 100.0%    | 100.0%    | 100.0%    |
| Equity per common share (000's):                                 |           |           |           |           |           |           |           |
| Common shares outstanding                                        | 26,367    | 18,590    | 17,971    | 17,941    | 17,933    | 15,112    | 15,112    |
| Equity per share                                                 | \$ 9.53   | \$ 8.84   | \$ 8.62   | \$ 8.13   | \$ 7.67   | \$ 6.75   | \$ 6.26   |

**Union Gas Limited**  
**Financial Statistics**

Thousands of dollars

Fiscal years ended March 31

| Consolidated Statement of<br>Changes in Financial Position | 1981       | 1980       | 1979        | 1978      | 1977      | 1976      | 1975      |
|------------------------------------------------------------|------------|------------|-------------|-----------|-----------|-----------|-----------|
| Funds provided:                                            |            |            |             |           |           |           |           |
| From operations (note 9)                                   | \$ 73,495  | \$ 62,836  | \$ 71,773   | \$ 51,509 | \$ 45,737 | \$ 37,373 | \$ 32,129 |
| Long-term debt                                             | —          | 59,500     | —           | 48,930    | 39,151    | 29,432    | 27,522    |
| Common shares issued                                       |            |            |             |           |           |           |           |
| Public issue                                               | 47,725     | —          | —           | —         | 18,929    | —         | —         |
| Conversion of preference shares                            | 20,515     | 3,625      | 2           | 64        | 2         | —         | —         |
| Employee share purchase plans                              | 1,029      | —          | —           | —         | —         | —         | —         |
| Dividends reinvested                                       | 488        | 420        | 498         | —         | —         | —         | —         |
| Preference shares issued                                   | 40,000     | —          | 39,696      | 1,980     | —         | —         | 24,049    |
|                                                            | \$183,252  | \$126,381  | \$111,969   | \$102,483 | \$103,819 | \$ 66,805 | \$ 83,700 |
| Funds applied:                                             |            |            |             |           |           |           |           |
| Utility properties, plant and equipment<br>expenditures    | 55,830     | 57,274     | 60,340      | 58,468    | 48,653    | 44,310    | 41,832    |
| Western Canada exploration and<br>development costs        | 27,858     | 22,422     | 34,459      | 8,125     | 1,211     | 610       | 998       |
| Retirement of long-term debt                               | 12,687     | 6,813      | 5,518       | 4,642     | 15,286    | 7,402     | 16,691    |
| Increase in deferred SNG premium<br>account                | 1,128      | 17,153     | 10,590      | 1,105     | —         | —         | —         |
| Dividends declared                                         |            |            |             |           |           |           |           |
| Preference shares                                          | 7,469      | 5,967      | 4,601       | 3,283     | 3,158     | 3,180     | 998       |
| Common shares                                              | 16,273     | 13,600     | 13,285      | 13,050    | 10,758    | 9,672     | 9,672     |
| Preference shares                                          |            |            |             |           |           |           |           |
| Purchased for cancellation                                 | 2,122      | 1,575      | 638         | 212       | 569       | 295       | 105       |
| Converted to common shares                                 | 20,515     | 3,625      | 2           | 64        | 2         | —         | —         |
| Canadian Arctic Gas Study Limited<br>expenditures          | —          | —          | —           | 1,288     | 1,879     | 1,887     | 889       |
| Increase (decrease) in investments                         |            |            |             |           |           |           |           |
| Major Holdings & Developments Limited                      | 2,500      | 2,508      | 4,002       | 10        | 305       | 120       | 2,800     |
| Numac Oil & Gas Ltd.                                       | 37,862     | —          | —           | —         | —         | —         | —         |
| Deferred charges and other items                           | 602        | 338        | 99          | 121       | (137)     | (268)     | 54        |
|                                                            | 184,846    | 131,275    | 133,534     | 90,368    | 81,684    | 67,208    | 74,039    |
| Increase (decrease) in working capital                     | \$ (1,594) | \$ (4,894) | \$ (21,565) | \$ 12,115 | \$ 22,135 | \$ (403)  | \$ 9,661  |
| Changes in working capital components:                     |            |            |             |           |           |           |           |
| Accounts receivable                                        | \$ 31,571  | \$ 22,651  | \$ 3,104    | \$ 9,662  | \$ 21,625 | \$ 8,973  | \$ 13,323 |
| Gas in underground storage                                 | (12,509)   | (1,256)    | 22,797      | 8,926     | (22,772)  | 36,021    | 10,026    |
| Short-term borrowings                                      | 8,892      | (22,761)   | (42,980)    | (11,159)  | 39,202    | (41,721)  | 2,585     |
| Accounts payable and other                                 | (29,548)   | (3,528)    | (4,486)     | 4,686     | (15,920)  | (3,676)   | (16,273)  |
| Increase (decrease) in working capital                     | \$ (1,594) | \$ (4,894) | \$ (21,565) | \$ 12,115 | \$ 22,135 | \$ (403)  | \$ 9,661  |
| Funds provided from operations<br>per common share         | \$ 3.70    | \$ 3.44    | \$ 4.00     | \$ 2.87   | \$ 2.90   | \$ 2.47   | \$ 2.13   |

**Union Gas Limited**  
**Other Financial Statistics**

Thousands of dollars

Fiscal years ended March 31

|                                                                       | 1981             | 1980             | 1979             | 1978             | 1977            | 1976            | 1975            |
|-----------------------------------------------------------------------|------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|
| Rate of return on common equity:                                      |                  |                  |                  |                  |                 |                 |                 |
| Earnings applicable to common shares<br>(before extraordinary item)   | \$ 21,932        | \$ 17,751        | \$ 21,790        | \$ 25,372        | \$ 22,445       | \$ 17,141       | \$ 14,065       |
| Average common equity during year                                     | 173,053          | 159,678          | 150,439          | 141,710          | 119,786         | 98,357          | 92,475          |
| Rate                                                                  | 12.6%            | 11.1%            | 14.5%            | 17.9%            | 18.7%           | 17.4%           | 15.2%           |
| Interest coverage:                                                    |                  |                  |                  |                  |                 |                 |                 |
| Number of times interest charges (net)<br>covered by operating income | 2.4              | 2.4              | 2.6              | 3.0              | 2.8             | 2.9             | 2.7             |
| Market value of common shares:                                        |                  |                  |                  |                  |                 |                 |                 |
| High                                                                  | 14               | 12 $\frac{7}{8}$ | 12               | 10 $\frac{7}{8}$ | 10              | 8 $\frac{1}{2}$ | 9 $\frac{7}{8}$ |
| Low                                                                   | 10 $\frac{1}{8}$ | 10               | 9 $\frac{5}{8}$  | 9                | 7 $\frac{1}{2}$ | 6 $\frac{1}{2}$ | 6 $\frac{1}{2}$ |
| Close                                                                 | 12 $\frac{1}{8}$ | 10 $\frac{5}{8}$ | 10 $\frac{5}{8}$ | 10 $\frac{1}{2}$ | 9 $\frac{1}{4}$ | 7 $\frac{3}{4}$ | 8               |
| Dividend pay-out ratio for common shares:                             |                  |                  |                  |                  |                 |                 |                 |
| Ratio of dividends declared to earnings<br>to common                  | 75.7             | 74.2             | 58.7             | 60.9             | 47.9            | 56.4            | 68.8            |

# Union Gas Limited

## Operating Statistics

Fiscal years ended March 31

|                                                                              | 1981<br>(metric) | 1981             | 1980             | 1979             | 1978             | 1977             | 1976             | 1975             |
|------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Gas marketing</b>                                                         |                  |                  |                  |                  |                  |                  |                  |                  |
| Customers (end of year):                                                     |                  |                  |                  |                  |                  |                  |                  |                  |
| Residential                                                                  |                  | 412,829          | 403,647          | 391,288          | 381,685          | 371,731          | 360,943          | 347,232          |
| Commercial                                                                   |                  | 45,875           | 44,734           | 43,676           | 42,380           | 41,481           | 39,252           | 38,279           |
| Industrial                                                                   |                  | 4,992            | 4,807            | 4,573            | 4,397            | 4,360            | 4,266            | 4,178            |
| Other utilities                                                              |                  | 6                | 7                | 8                | 8                | 9                | 10               | 11               |
| <b>Total</b>                                                                 |                  | <b>463,702</b>   | <b>453,195</b>   | <b>439,545</b>   | <b>428,470</b>   | <b>417,581</b>   | <b>404,471</b>   | <b>389,700</b>   |
| Sales:                                                                       |                  |                  |                  |                  |                  |                  |                  |                  |
| Residential                                                                  | 1 422            | 50,491           | 50,031           | 49,993           | 49,709           | 52,507           | 46,319           | 46,021           |
| Commercial                                                                   | 1 252            | 44,445           | 42,196           | 42,357           | 41,358           | 42,581           | 39,137           | 38,115           |
| Industrial                                                                   | 4 088            | 144,980          | 151,123          | 140,079          | 145,160          | 144,969          | 142,470          | 143,975          |
| Other utilities                                                              | 195              | 6,992            | 6,436            | 6,356            | 5,835            | 6,196            | 5,853            | 5,656            |
| <b>Total</b>                                                                 | <b>6 957</b>     | <b>246,908</b>   | <b>249,786</b>   | <b>238,785</b>   | <b>242,062</b>   | <b>246,253</b>   | <b>233,779</b>   | <b>233,767</b>   |
| Revenue (\$000's):                                                           |                  |                  |                  |                  |                  |                  |                  |                  |
| Residential                                                                  |                  | \$212,662        | \$176,575        | \$164,084        | \$140,765        | \$127,057        | \$ 83,456        | \$ 65,369        |
| Commercial                                                                   |                  | 148,929          | 117,601          | 109,341          | 92,346           | 83,166           | 57,764           | 43,670           |
| Industrial                                                                   |                  | 401,051          | 345,633          | 299,738          | 262,462          | 224,098          | 157,844          | 110,522          |
| Other utilities                                                              |                  | 20,100           | 15,334           | 14,510           | 11,311           | 10,314           | 6,813            | 4,616            |
| <b>Total</b>                                                                 |                  | <b>\$782,742</b> | <b>\$655,143</b> | <b>\$587,673</b> | <b>\$506,884</b> | <b>\$444,635</b> | <b>\$305,877</b> | <b>\$224,177</b> |
| Average gas use per customer:                                                |                  |                  |                  |                  |                  |                  |                  |                  |
| Residential                                                                  |                  | 124.2            | 126.6            | 130.0            | 132.8            | 144.2            | 131.3            | 135.4            |
| Commercial                                                                   |                  | 992.1            | 967.8            | 991.4            | 996.0            | 1,057.5          | 1,016.0          | 1,020.5          |
| Degree day deficiency (celsius)*                                             | 4 078            |                  | 4 024            | 4 091            | 4 166            | 4 338            | 3 751            | 3 849            |
| <b>Gas supply</b>                                                            |                  |                  |                  |                  |                  |                  |                  |                  |
| Source:                                                                      |                  |                  |                  |                  |                  |                  |                  |                  |
| Pipeline suppliers                                                           | 6 661            | 235,128          | 236,366          | 242,282          | 248,400          | 226,644          | 254,164          | 242,244          |
| Ontario producers                                                            | 113              | 4,005            | 4,181            | 4,829            | 4,004            | 3,185            | 3,205            | 3,790            |
| Petrosar                                                                     | 219              | 7,730            | 7,576            | 6,680            | 700              | —                | —                | —                |
| Produced from Company wells                                                  | 24               | 840              | 645              | 887              | 674              | 631              | 2,400            | 1,759            |
| <b>Total</b>                                                                 | <b>7 017</b>     | <b>247,703</b>   | <b>248,768</b>   | <b>254,678</b>   | <b>253,778</b>   | <b>230,460</b>   | <b>259,769</b>   | <b>247,793</b>   |
| <b>Storage and transmission operation</b>                                    |                  |                  |                  |                  |                  |                  |                  |                  |
| Gas delivered for other utilities under storage and transportation contracts | 5 059            | 178,573          | 170,763          | 185,409          | 161,282          | 178,632          | 166,393          | 168,966          |
| Gas into storage                                                             | 2 030            | 71,677           | 69,398           | 82,985           | 85,171           | 59,754           | 74,331           | 55,320           |
| Gas out of storage                                                           | 2 309            | 81,517           | 79,928           | 77,524           | 71,945           | 84,939           | 51,061           | 52,422           |
| Maximum day send out:                                                        |                  |                  |                  |                  |                  |                  |                  |                  |
| From storage                                                                 | 47               | 1,664            | 1,713            | 1,699            | 1,439            | 1,426            | 1,248            | 1,170            |
| From total system                                                            | 74               | 2,618            | 2,615            | 2,546            | 2,381            | 2,460            | 2,231            | 1,879            |
| <b>System facilities</b>                                                     |                  |                  |                  |                  |                  |                  |                  |                  |
| Kilometres of pipelines:                                                     |                  |                  |                  |                  |                  |                  |                  |                  |
| Gathering and storage                                                        | 494              |                  | 513              | 575              | 589              | 660              | 679              | 677              |
| Transmission                                                                 | 2 884            |                  | 2 876            | 2 855            | 2 872            | 2 896            | 2 919            | 2 864            |
| Distribution                                                                 | 13 306           |                  | 13 037           | 12 648           | 12 313           | 12 008           | 11 625           | 11 316           |
| <b>Total pipelines</b>                                                       | <b>16 684</b>    |                  | <b>16 426</b>    | <b>16 078</b>    | <b>15 774</b>    | <b>15 564</b>    | <b>15 223</b>    | <b>14 857</b>    |
| Compressor station horsepower/kilowatts                                      | 89 927           | 120,545          | 120,545          | 120,545          | 120,545          | 94,145           | 92,985           | 73,785           |
| Working storage capacity                                                     | 2 731            | 96,395           | 96,395           | 96,395           | 96,395           | 92,490           | 87,384           | 81,956           |

Metric measurement is known as SI(Système International d'Unités). For 1981 gas volumes are stated in million cubic feet (MMCF) and million cubic metres (10<sup>6</sup>m<sup>3</sup>), except for average gas use per customer, which is stated in thousand cubic feet (MCF) and cubic metres (m<sup>3</sup>). Degree day deficiency and pipeline length is expressed in SI units for all years and compressor station figures for 1981 are expressed in both measures.

\*Normal degree day deficiency is 3 907.

# Union Gas Limited

## Directors and Officers

|                                                                           |                                                                                                                       |                                                               |                                                                                                                |  |
|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|--|
| Directors                                                                 | Ralph M. Barford, Toronto<br>President, Valleydene Corporation Limited                                                |                                                               | Joseph S. Land, Toronto<br>Retired, former Chairman of the Board<br>Continental Bank of Canada and IAC Limited |  |
|                                                                           | George H. Blumenauer, Hamilton<br>Chairman of the Board and Chief Executive<br>Officer, Otis Elevator Company Limited |                                                               | William S. McGregor, Edmonton<br>President & Managing Director, Numac Oil &<br>Gas Ltd.                        |  |
|                                                                           | John D. Bradley, Chatham<br>President, Bradley Farms Limited and First<br>Chatham Corporation Limited                 |                                                               | W. Darcy McKeough, Chatham<br>President and Chief Executive Officer, Union<br>Gas Limited                      |  |
|                                                                           | Frank Capewell, Chatham<br>Executive Vice-President, Utility, Union Gas<br>Limited                                    |                                                               | David G. Waldon, Toronto<br>Retired, former Chairman of the Board,<br>Interprovincial Pipe Line Limited        |  |
|                                                                           | John B. Cronyn, London<br>Company Director                                                                            |                                                               | William H. Watson, Chatham<br>President, Huron Construction Company Limited                                    |  |
|                                                                           | C. Malim Harding, O.B.E., Toronto<br>Chairman of the Board, Harding Carpets Limited                                   |                                                               | Abram Wiebe, Waterloo<br>President, Fambau Limited                                                             |  |
|                                                                           | Richard M. Ivey, London<br>Chairman of the Board, Allpak Limited                                                      |                                                               | Donald J. Wright, Q.C., Toronto<br>Partner, Lang, Michener, Cranston,<br>Farquharson and Wright                |  |
|                                                                           | Frederick W. P. Jones, LL.D., London<br>Financial Consultant                                                          |                                                               |                                                                                                                |  |
|                                                                           |                                                                                                                       |                                                               |                                                                                                                |  |
|                                                                           | <i>Executive Committee</i>                                                                                            |                                                               | <i>Audit Committee</i>                                                                                         |  |
| C. M. Harding,<br>Chairman                                                |                                                                                                                       | D. G. Waldon,<br>Chairman                                     |                                                                                                                |  |
| R. M. Barford                                                             |                                                                                                                       | J. D. Bradley                                                 |                                                                                                                |  |
| F. Capewell                                                               |                                                                                                                       | W. H. Watson                                                  |                                                                                                                |  |
| J. B. Cronyn                                                              |                                                                                                                       | A. Wiebe                                                      |                                                                                                                |  |
| W. D. McKeough                                                            |                                                                                                                       |                                                               |                                                                                                                |  |
| D. J. Wright                                                              |                                                                                                                       |                                                               |                                                                                                                |  |
|                                                                           |                                                                                                                       |                                                               |                                                                                                                |  |
| Principal Officers                                                        | C. Malim Harding, O.B.E.<br>Chairman of the Board                                                                     |                                                               | W. Darcy McKeough<br>President and Chief<br>Executive Officer                                                  |  |
|                                                                           | <i>Corporate</i>                                                                                                      |                                                               | <i>Utility</i>                                                                                                 |  |
| R. Glen Caughey<br>Corporate Vice-President, Special Projects             |                                                                                                                       | Stephen T. Bellringer<br>Vice-President Administration        |                                                                                                                |  |
| Paul F. Little<br>Vice-President, Corporate Finance and<br>Development    |                                                                                                                       | Henry B. Arndt<br>Vice-President, Utility Accounting          |                                                                                                                |  |
| Douglas G. Shields<br>Corporate Vice-President and Treasurer              |                                                                                                                       | Francis M. Edgell<br>Vice-President Operations                |                                                                                                                |  |
| Gerald E. Miller<br>Manager, Corporate Finance<br>and Assistant Treasurer |                                                                                                                       | Donald C. Ingram<br>Vice-President Engineering and Gas Supply |                                                                                                                |  |
| Edna Crawford<br>Corporate Secretary                                      |                                                                                                                       | John B. Jolley, Q.C.<br>Vice-President and General Counsel    |                                                                                                                |  |
| Michael J. O'Neill<br>Corporate Comptroller                               |                                                                                                                       | John Webel<br>Vice-President Personnel and Systems            |                                                                                                                |  |
| J. Edwin Mahoney<br>Vice-President Corporate Affairs                      |                                                                                                                       |                                                               |                                                                                                                |  |
|                                                                           |                                                                                                                       |                                                               |                                                                                                                |  |
| Major Holdings &<br>Developments Limited                                  | <i>Directors</i>                                                                                                      |                                                               | <i>Principal officers</i>                                                                                      |  |
|                                                                           | John D. Bradley                                                                                                       |                                                               | W. Darcy McKeough                                                                                              |  |
|                                                                           | John B. Cronyn                                                                                                        |                                                               | Chairman of the Board                                                                                          |  |
|                                                                           | Joseph S. Land                                                                                                        |                                                               | Ian A. Milroy                                                                                                  |  |
|                                                                           | W. Darcy McKeough                                                                                                     |                                                               | President & Chief Executive Officer                                                                            |  |
|                                                                           | Ian A. Milroy                                                                                                         |                                                               |                                                                                                                |  |
| Jack H. Smith, Q.C.*                                                      |                                                                                                                       |                                                               |                                                                                                                |  |

## Corporate Information

|                           |                                                                                                                                                                                                                      |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Head Office               | 50 Keil Drive North, Chatham, Ontario N7M 5M1                                                                                                                                                                        |
| Transfer agent            | Canada Permanent Trust Company<br>Preference Shares — all classes<br>Common Shares — Class A and B                                                                                                                   |
| Registrars                | Canada Permanent Trust Company<br>Preference Shares — all classes<br>Common Shares — Class A and B<br><br>Crown Trust Company<br>Common Shares — Class A and B                                                       |
| Dividend disbursing agent | Canada Permanent Trust Company                                                                                                                                                                                       |
| Stock exchange listings   | Common shares:<br>Class A and B<br>The Toronto Stock Exchange<br>Montreal Stock Exchange<br>Alberta Stock Exchange<br>Preference shares:<br>Class A — 5½% and 6%<br>The Toronto Stock Exchange<br>Stock symbol — UNG |

### Common Share Information

#### Common share prices

| Fiscal quarter    | 1981  |       | 1980 |       |
|-------------------|-------|-------|------|-------|
|                   | High  | Low   | High | Low   |
| April 1 - June 30 | \$12¼ | \$10⅞ | \$12 | \$10¼ |
| July 1 - Sept. 30 | 12⅝   | 11    | 12½  | 11¼   |
| Oct. 1 - Dec. 31  | 14    | 11½   | 12⅞  | 10¼   |
| Jan. 1 - Mar. 31  | 13    | 11    | 12⅝  | 10    |

Geographical distribution of the registered holders of the Class A and Class B Common Shares at March 31, 1981 is as follows:

|                       | Number of shareholders | Number of shares |
|-----------------------|------------------------|------------------|
| Alberta               | 370                    | 364,155          |
| British Columbia      | 1,267                  | 746,694          |
| Manitoba              | 345                    | 1,922,450        |
| New Brunswick         | 158                    | 41,627           |
| Newfoundland          | 16                     | 9,673            |
| Northwest Territories | 1                      | 4                |
| Nova Scotia           | 330                    | 222,764          |
| Ontario               | 10,839                 | 19,479,722       |
| Prince Edward Island  | 29                     | 14,908           |
| Quebec                | 1,577                  | 2,827,574        |
| Saskatchewan          | 142                    | 43,419           |
| Yukon                 | 2                      | 400              |
| Total Canadian        | 15,076                 | 25,673,390       |
| United States         | 337                    | 367,627          |
| Other Countries       | 85                     | 326,254          |
| Total                 | 15,498                 | 26,367,271       |

## Glossary of Industry Terms

|                       |                                                                                                                                                                                                                                        |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Bituminous Coal       | Ranking of soft coal generally having a heating value of 11,000-14,000 BTU/lb., high in volatile matter and ash.                                                                                                                       |
| British Thermal Unit  | The amount of heat required to raise the temperature of one pound of water one Fahrenheit degree.                                                                                                                                      |
| Compressor            | A mechanical device for raising the pressure of a gas with a decrease in volume; used to move natural gas through a pipeline.                                                                                                          |
| Degree Day            | The number of degrees by which daily mean temperature falls below 18 degrees Celsius. One degree day is counted for each degree of deficiency for each day on which such a deficiency occurs.                                          |
| Deliverability        | The volume of gas a well, field, pipeline or distribution system can supply in a given period of time. Also, the practical output from a storage reservoir.                                                                            |
| Gate Station          | A location at which gas changes ownership, from one party to another, neither of which is the ultimate consumer.                                                                                                                       |
| Looping               | A paralleling of an existing pipe line by another line over the whole length or any part of it, to increase capacity.                                                                                                                  |
| Peak Day              | The 24-hour period of greatest total gas sendout.                                                                                                                                                                                      |
| Send-Out              | Gas delivered to a delivery or distribution system from a plant or a metering station during a specific period of time.                                                                                                                |
| Synthetic Natural Gas | A descriptive term used interchangeably with SNG and Substitute Natural Gas. It is a gas manufactured from naphtha feedstock, coal, etc. and is substituted for, or mixed with, natural gas by a pipeline or gas distribution utility. |
| Test Year             | The twelve-month period selected as the base for presenting data in a case or hearing before a regulatory agency.                                                                                                                      |
| Underground Storage   | The storage of gas in natural underground reservoirs at a different location from which it was originally produced.                                                                                                                    |
| Working Gas           | Gas in an underground storage field that is available for market.                                                                                                                                                                      |



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